INNOVATING A CONVENIENT LIFESTYLE

KAWAN FOOD BERHAD

2018

KAWAN Food Berhad Annual Report

640445-V (Incorporated in Malaysia)

Vision

To be the leading international company that provides products which create values and enhance lifestyle of our customers.

Mission

- To enrich people's lives through consistent delivery of high quality, safe and convenient food.
- To be the leader in developing our new innovation with advance technology.
- To create values in a sustainable way to our stakeholders and contribute to economic, social and environmental developments.

Values

Responsibility
We take ownership and responsibility of our results.

Teamwork
We work together as a team to achieve our mission by having open communication, mutual respect and sharing of knowledge.

Integrity
We are committed to be fair & honest in all our dealings and adhere to the highest ethical standards.

Discipline
We are dedicated and committed to achieve higher efficiency and effectiveness.

Innovative
We embrace new ideas and constantly changing to meet customers' needs.

INSIDE THIS REPORT

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifteenth Annual General Meeting of Kawan Food Berhad will be held at Lot 129351, Jalan Sungai Pinang 4/19, Taman Perindustrian Pulau Indah, Selangor Halal Hub, Fasa 2C, 42920, Pulau Indah, Selangor Darul Ehsan, Malaysia on Friday, 31 May 2019 at 10.00 a.m. for the following purposes:

AGENDA

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon. (Please refer to Note 1 of the Explanatory Notes)

2. To approve the Directors' fees and benefits payable to the Directors of the Company of up to RM1Million for the financial year ending 31 December 2019. **Ordinary Resolution 1**

3. To re-elect the following Directors who are retiring under Article 80 of the Articles of Association of the Company:

   (i) Mr. Gan Thiam Chai — **Ordinary Resolution 2**
   (ii) Mr. Lim Hun Soon @ David Lim — **Ordinary Resolution 3**
   (iii) En. Abdul Razak bin Shakor — **Ordinary Resolution 4**

4. To re-elect the following Director who is retiring under Article 85 of the Articles of Association of the Company:

   (i) Mr. Eugene Hon Kah Weng — **Ordinary Resolution 5**

5. To re-appoint Messrs ChengCo PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Ordinary Resolution 6**

As Special Business

To consider and, if thought fit, to pass the following resolutions:

6. Proposed Renewal of Shareholders' Mandate for the Recurrent Related Party Transactions of a Revenue or Trading Nature with the following related parties ("Proposed Renewal of Shareholders' Mandate"):

   (i) Shana Foods Limited and Rubicon Food Products Limited — **Ordinary Resolution 7**
   (ii) Food Valley Sdn. Bhd. — **Ordinary Resolution 8**
   (iii) K.C. Belight Food Industry (M) Sdn. Bhd. and MH Delight Sdn. Bhd. — **Ordinary Resolution 9**
   (iv) Hot & Roll Sdn. Bhd. — **Ordinary Resolution 10**

   (Collectively referred to as "Related Parties")

   "**THAT** approval be and is hereby given to the Company, to enter and give effect to the recurrent related party transactions of a revenue or trading nature (hereinafter to be referred to as "Recurrent Transactions") with the above Related Parties as stated in Section 2.4 of the Circular to Shareholders dated 30 April 2019 which are necessary for the Company's day-to-day operations subject further to the following:

   (i) the Recurrent Transactions contemplated are in the ordinary course of business and on terms which are not more favourable to Related Parties than those generally available to the public, and are not to the detriment of the minority shareholders;

(ii) the approval is subject to annual renewal and shall only continue to be in force until:

(a) the conclusion of the next Annual General Meeting of the Company following the forthcoming Annual General Meeting of the Company at which the Proposed Renewal of Shareholders' Mandate is approved, at which time it will lapse unless by a resolution passed at the Annual General Meeting the mandate is again renewed;

(b) the expiration of the period within which the next Annual General Meeting of the Company after the date is required to be held pursuant to Section 340(2) of the Companies Act, 2016 (but shall not extend to such extensions as may be allowed pursuant to Section 340(4) of the Companies Act, 2016); or

(c) revoked or varied by resolution passed by the shareholders in general meeting,

whichever is the earlier; and

(iii) the disclosure of the breakdown of the aggregate value of the Recurrent Transactions conducted pursuant to the Proposed Renewal of Shareholders' Mandate in the Annual Report of the Company based on the following information:

(a) the type of Recurrent Transactions entered into; and

(b) the names of the Related Parties involved in each type of the Recurrent Transactions entered into and their relationship with the Company.

AND THAT the Directors of the Company be and are hereby authorised to do all acts and things to give full effect to the Recurrent Transactions contemplated and/or authorised by this resolution, as the Directors of the Company, in their absolute discretion, deem fit."

7. Authority under Section 76 of the Companies Act, 2016 for the Directors to allot and issue shares **Ordinary Resolution 11**

"**THAT** pursuant to Section 76 of the Companies Act, 2016, the Directors be and are hereby authorised to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting of the Company upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the total number of issued shares of the Company (excluding treasury shares, if any) at the time of issue, subject to the Constitution of the Company and approval of all the relevant regulatory bodies being obtained for such allotment and issue."

8. Proposed Adoption of New Constitution of the Company **Special Resolution**

"**THAT** the existing Memorandum of Association and Articles of Association of the Company be and are hereby deleted in its entirely and that the new Constitution as set out in Part B of the Circular to Shareholders dated 30 April 2019 be and is hereby adopted as the new Constitution of the Company."

9. To transact any other business for which due notice shall have been given.

BY ORDER OF THE BOARD

TAI YIT CHAN (MAICSA 7009143)
TAI YUEN LING (LS 0008513)
Company Secretaries

Date: 30 April 2019

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint more than one (1) proxy to attend, participate, speak and vote in his/her stead. A proxy may but need not be a member of the Company.

2. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.

3. Where a member is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited with the Share Registrar of the Company, Boardroom Share Registrars Sdn. Bhd. (formerly known as Symphony Share Registrars Sdn. Bhd.) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than 48 hours before the time for holding the meeting or any adjournment thereof. Any notice of termination of person's authority to act as a proxy must be forwarded to the Company prior to the commencement of the Annual General Meeting or Adjourned Annual General Meeting.

5. Pursuant to paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in the notice of any general meeting will be put to vote by poll.

6. If the appointor is a corporation, the instrument appointing a proxy must be executed under its Common Seal or under the hand of its attorney.

7. In respect of deposited securities, only members whose names appear on the Record of Depositors on 24 May 2019 (General Meeting Record of Depositors) shall be eligible to attend the meeting or appoint proxy(ies) to attend and/or vote on his behalf.

EXPLANATORY NOTE:

1. **To receive the Audited Financial Statements**

   Agenda item no. 1 is meant for discussion only as the provision of Section 340 of the Companies Act, 2016 does not require a formal approval of shareholders for the Audited Financial Statements. Hence, this item on the Agenda is **not put forward for voting**.

2. **Ordinary Resolutions 7, 8, 9 & 10 - Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

   The Ordinary Resolutions 7, 8, 9 & 10 proposed, if passed, will empower the Directors from the date of the Fifteenth Annual General Meeting, to deal with the related party transactions involving recurrent transactions of a revenue or trading nature which are necessary for the Company's day-to-day operations. These recurrent related party transactions are in the ordinary course of business and are on terms not more favourable to the Related Parties than those generally available to the public and not to the detriment of the minority shareholders.

   This authority unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company and subject always to provision (ii) of the resolution.

   For further information on Ordinary Resolutions 7, 8, 9 & 10, please refer to the Circular to Shareholders dated 30 April 2019 accompanying the Annual Report of the Company for the financial year ended 31 December 2018.

3. **Ordinary Resolution 11 - Authority under Section 76 of the Companies Act, 2016 for the Directors to allot and issue shares**

   The Ordinary Resolution 11 proposed under item 7 of the Agenda seeks the shareholders' approval of a general mandate for issuance of shares by the Company under Section 76 of the Companies Act, 2016. The mandate, if passed, will provide flexibility for the Company and empower the Directors to allot and issue new shares speedily in the Company up to an amount not exceeding in total 10% of the issued share capital of the Company for purpose of funding the working capital or strategic development of the Group. This would eliminate any delay arising from and cost involved in convening a general meeting to obtain approval of the shareholders for such issuance of shares. This authority, unless revoked or varied by the Company at a general meeting, will expire at the next Annual General Meeting.

   At this juncture, there is no decision to issue new shares. If there should be a decision to issue new shares after the general mandate is sought, the Company will make an announcement in respect thereof.

   The Company did not allot and issue any shares pursuant to the general mandate granted by the shareholders at the previous Annual General Meeting.

4. **Special Resolution – Proposed Adoption of New Constitution of the Company**

   The proposed Special Resolution, if passed, will align the Constitution with the Act, which came into force on 31 January 2017, the Main Market Listing Requirement of Bursa Securities, and prevailing statutory and regulatory requirements as well as to render clarity and consistency throughout. Details of which as set out in Part B of the Circular to Shareholders dated 30 April 2019.

5. **Mr. Lim Peng @ Lim Pang Tun has expressed his intention not to seek re-appointment as an Independent Non-Executive Director.**

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

CORPORATE INFORMATION

BOARD OF DIRECTORS

GAN THIAM CHAI
Executive Chairman

TIMOTHY TAN HENG HAN
Managing Director

GAN THIAM HOCK
Non-Independent Executive Director

KWAN SOK KAY
Non-Independent Executive Director

NARESHCHANDRA GORDHANDAS NAGRECHA
Non-Independent Non-Executive Director

ABDUL RAZAK BIN SHAKOR
Non-Independent Non-Executive Director

DR. NIK ISMAIL BIN NIK DAUD
Senior Independent Non-Executive Director

LIM PENG @ LIM PANG TUN
Independent Non-Executive Director

LIM HUN SOON @ DAVID LIM
Independent Non-Executive Director

EUGENE HON KAH WENG
Independent Non-Executive Director

AUDIT COMMITTEE

LIM HUN SOON @ DAVID LIM
Chairman

LIM PENG @ LIM PANG TUN
Member

DR. NIK ISMAIL BIN NIK DAUD
Member

EUGENE HON KAH WENG
Member

REMUNERATION COMMITTEE

DR. NIK ISMAIL BIN NIK DAUD
Chairman

LIM HUN SOON @ DAVID LIM
Member

LIM PENG @ LIM PANG TUN
Member

EUGENE HON KAH WENG
Member

NOMINATING COMMITTEE

LIM PENG @ LIM PANG TUN
Chairman

DR. NIK ISMAIL BIN NIK DAUD
Member

ABDUL RAZAK BIN SHAKOR
Member

EUGENE HON KAH WENG
Member

REGISTERED OFFICE

BOARDROOM CORPORATE SERVICES SDN. BHD.
(Company No. 3775-X) (FORMERLY KNOWN AS BOARDROOM CORPORATE SERVICES (KL) SDN. BHD.)
Lot 6.05, Level 6, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel : +603 7720 1188
Fax : +603 7720 1111

SHARE REGISTRAR

BOARDROOM SHARE REGISTRARS SDN. BHD. (Company No. 378993-D)
(FORMERLY KNOWN AS SYMPHONY SHARE REGISTRARS SDN. BHD.)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel : +603 7841 8000
Fax : +603 7841 8008

MANAGEMENT OFFICE

Lot 129351, Jalan Sungai Pinang 4/19
Taman Perindustrian Pulau Indah
Selangor Halal Hub, Fasa 2C,
42920, Pulau Indah,
Selangor Darul Ehsan, Malaysia
Tel : +603 3099 1188
Fax : +603 3099 1028
Email : info@kawanfood.com

SECRETARY

TAI YIT CHAN (MAICSA 7009143)

TAI YUEN LING (LS 0008513)

AUDITORS

CHENGCO PLT (LLP0017004-LCA & AF0886) (FORMERLY KNOWN AS CHENG & CO)
No. 8-2 & 10-2, Jalan 2/114
Kuchai Business Centre
Off Jalan Kuchai Lama
58200 Kuala Lumpur, Malaysia
Tel : +603 7984 8988
Fax : +603 7984 4402

PRINCIPAL BANKERS

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)

MALAYAN BANKING BERHAD
(Company No. 3813-K)

RHB BANK BERHAD
(Company No. 6171-M)

UNITED OVERSEAS BANK (MALAYSIA) BHD
(Company No. 271809-K)

STOCK EXCHANGE LISTING

MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD
Stock Short Name : KAWAN
Stock Code: 7216

WEBSITE

www.kawanfood.com

AT A GLANCE

EMPLOYEES

580

2017: 499

MANUFACTURING FACILITIES

4

2017: 3

COUNTRIES

35

2017: 35

REVENUE

RM200.0M

2017: RM196.3M

PROFIT BEFORE TAXATION

RM29.2M

2017: RM36.1M

PROFIT AFTER TAXATION

RM22.8M

2017: RM29.1M

NET ASSETS PER SHARE

RM0.89

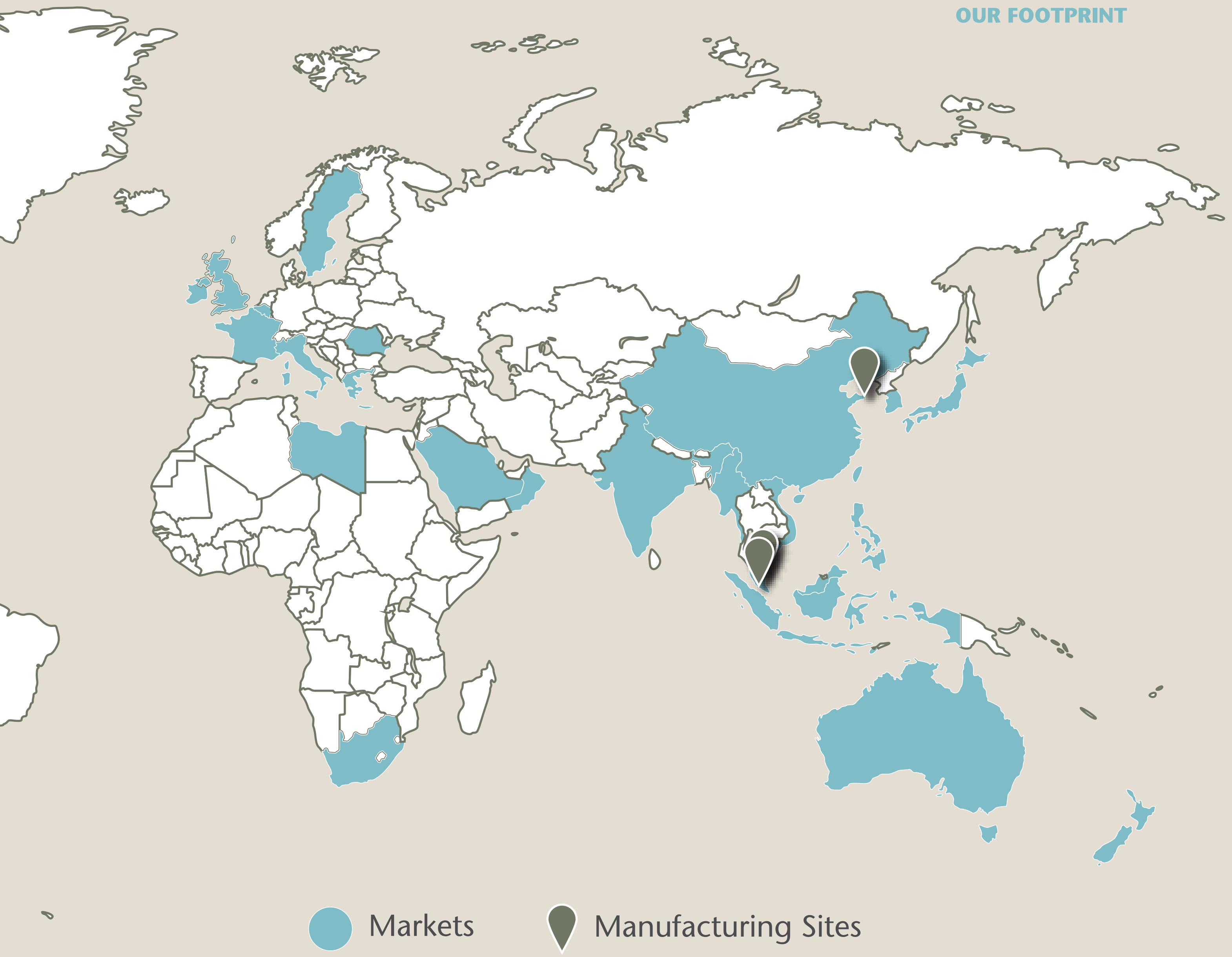
2017: RM0.86

EARNINGS PER SHARE

6.34SEN

2017: 8.10SEN

OUR FOOTPRINT



DIVIDEND PER SHARE

2.5SEN

2017: 2.5SEN

SHARE PRICE

RM1.91

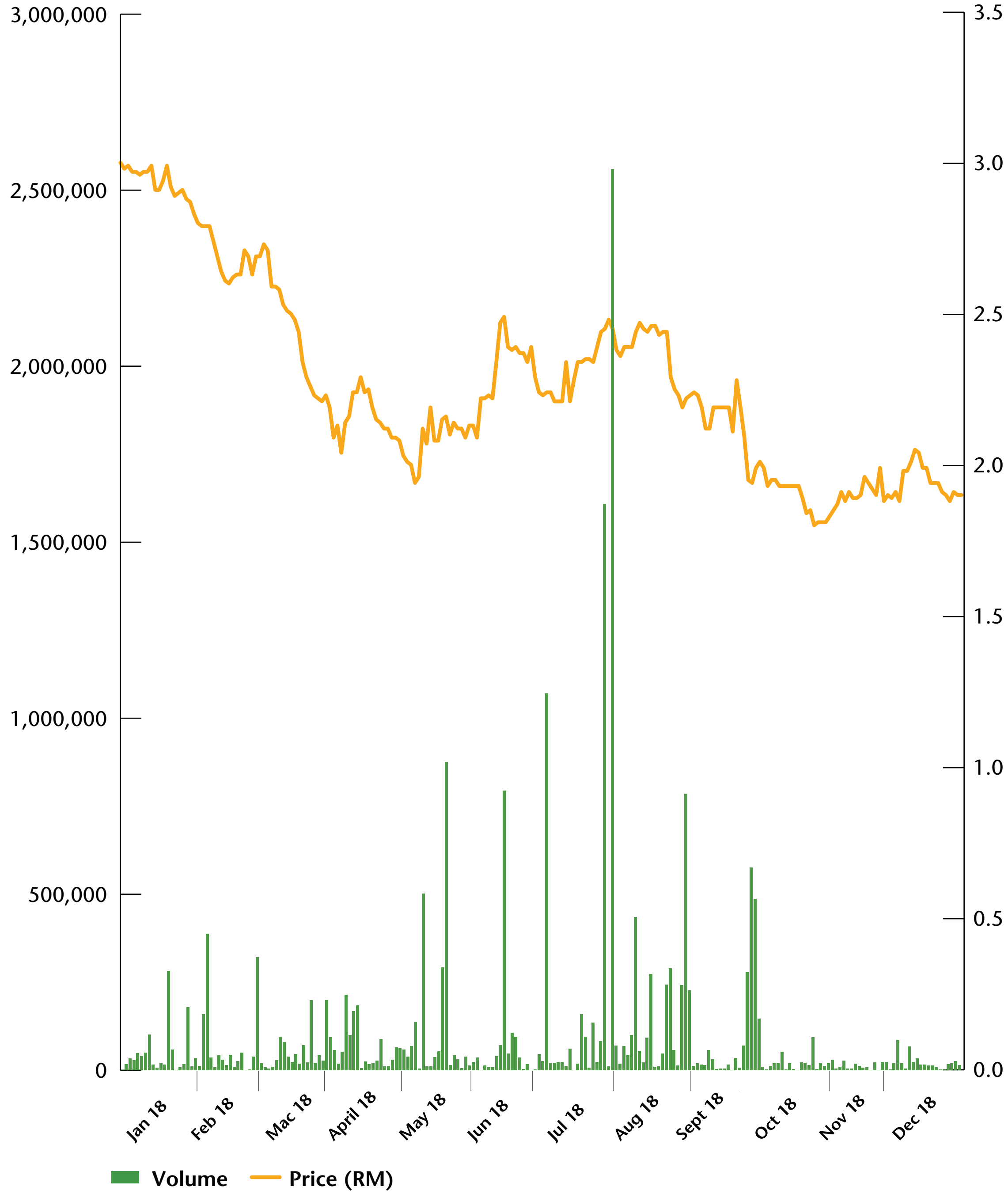
2017: RM2.94

MARKET CAPITALISATION

RM686.7M

2017: RM1,057.0M

SHARE PRICE PERFORMANCE



GROUP CORPORATE STRUCTURE

KAWAN FOOD BERHAD
(Investment holding)

- **100%** — **KAWAN FOOD MANUFACTURING SDN. BHD.**
  (Manufacturing and sales of frozen food products)
- **100%** — **KG PASTRY MARKETING SDN. BHD.**
  (Investment property and rental of trucks)
- **100%** — **KAWAN FOOD (HONG KONG) LIMITED**
  (Trading and distribution of frozen food products)
  - **100%** — **KAWAN FOOD (NANTONG) CO., LTD.**
    (Manufacturing and sales of frozen food delicacies)
- **100%** — **KAWAN FOOD CONFECTIONERY SDN. BHD.**
  (Investment holding)
  - **50%** — **HOT AND GO MANAGEMENT SDN. BHD.**
    (In members' voluntary liquidation)
- **51%** — **DIKAWANI FOODS SDN. BHD.**
  (In members' voluntary liquidation)

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE	PAT	OPERATING PROFIT	PBT
+1.9%	-21.6%	-18.2%	-18.9%
RM200.0M	RM22.8M	RM29.2M	RM29.2M

"LOOKING BACK ON THE YEARS AND HARD EFFORT THAT BROUGHT US TO WHERE WE ARE TODAY, WE CELEBRATE OUR MOMENTS. THE CONSOLIDATION IN OUR NEW STATE OF THE ART MANUFACTURING FACILITY WILL FURTHER STRENGTHEN US TO TRANSFORM OUR NEW VISION INTO SUCCESS. A NEW JOURNEY OF A THOUSAND MILES BEGINS WITH A SINGLE FACTORY."

We are well prepared to expand our production capacities which will enhance our capabilities to meet growing demand around the world, stepping up innovation and efficiencies to create value for our stakeholders. A new adventure of innovation, growth and performance for Kawan. A passion for innovative products with consumers in mind that is strongly rooted in our fundamental belief which will drive our sustainable growth.

Market conditions around the world have been challenging and consumer sentiments remain weak. Despite volatile environment, we remain resilient. While consolidating our business to seize growth opportunities, we continue to push ourselves in adapting to the ever changing world with impressive innovative products. As we move into the future, we become more agile in responding to rapid changes in the fast-moving consumer goods industry.

STRATEGY

As our new vision is to become the leading international company that provides products which create value and enhance lifestyle of our customers, our success depends on our quality standards and innovation. We also take cognisance of the importance of the long-term sustainability of our business and seek to create value for our stakeholders. Hence, driving growth and profitability is our focus while delivering sustainable value for our stakeholders.

We consistently deliver high quality, halal, safe and convenient food for our customers. We will continue to innovate with the focus on delivering convenience products that delight and exceed our customers' expectations. In the meantime, we will propel ourselves to increase operational efficiencies and effectiveness in a sustainable manner to drive our performance upwards.

CONSOLIDATING TOWARDS EFFICIENCIES

In pursuit of long-term sustainable growth, our Group has put in place an expansion plan by constructing a new manufacturing facility spanning 63,079 sq. metres and consolidated both the operations at Shah Alam under the new facility during the financial year ended 31 December 2018 ("FY18"). Based in Pulau Indah, our 49,404 sq. metres purpose-built premises house state of the art warehousing and distribution facilities. Our warehousing facility uses an automated warehouse logistic system which incorporates robotic systems to deliver the required goods directly to the loading bay. We have also invested in advanced production technologies such as high-speed automated lines for consistencies in quality. The new technologies will also improve utilisation rate of the production lines and reducing energy consumption.

With its larger capacity and advance technologies, the facility will enable us to meet growing market demand and enhance our operational efficiency which will lead to cost optimisation.

PERFORMANCE

Amid market uncertainties, our Company recorded sales growth of 1.9% to RM200.0m. Nevertheless, the profit after tax was recorded lower in FY18 from RM29.1m to RM22.8m due to higher operating costs in operating three factories amid the consolidation during the financial year. We understand the necessity of the consolidation taking into consideration the benefits and costs arising therefrom. Nevertheless, the strategy was undertaken in anticipation of the growth of our Group moving forward. We seek to continuously drive product innovation and focus on making a leaner organisation with cost reductions.

Overall, our FY18 performance reflects the strength of our brands and solid financial position despite volatile markets and rising operation costs. With our gradual sales growth along the year, the performance of our operations remains strong, especially in China – a market where we have responded with agility to rising consumer demand. We are seizing opportunities through our bakery category in the China which is growing strongly with an impressive sales growth of 220.8% to RM4.2m in the year. Paratha remains our core product of our business which accounts for approximately 42.8% of our Group's sales.

OPERATIONAL OVERVIEW

Historically, in the late 1990s, we became a leading producer of paratha in Malaysia and many other countries. Today, we are proud to be a leading supplier of frozen ethnic food with main product categories ranging from bakery, Bun, Chapatti, Dessert, Finger Food, Frozen Vegetable, Paratha and Spring Roll Pastry. Our portfolio of frozen products has grown over the years and now extends to three (3) minutes pre-cooked products. We have worked to strengthen our markets, developed our capacities, expanded our footprint and offering a wider range of portfolio which allows Kawan to be an international player in the food arena.

Approximately 59.4% of our sales are generated outside Malaysia especially in the US while the Malaysia market accounted for approximately 40.6% our Group's total revenue.

FOOD SAFETY

Food safety is our priority. Hence, we are committed to meet the internationally recognised standards and industry best practices such as Hazard Analysis and Critical Control Points ("HACCP"), Global Standard for Food Safety (Issue 8) (formerly known as British Retailer Consortium Standard ("BRC")), HALAL and Good Manufacturing Practices, ("GMP"). These standards specify the food safety, quality and operational requirements for food manufacturers to meet current industry expectations, compliance obligations and consumers protection. We believe that all these certifications will increase customer confidence and continued trust in our products which provides us with a competitive edge in the market. Our Company is working hard to ensure the facility, operations, people and processes are in accordance with the legal requirements and best practices to support our company in earning the recognitions of these standards as a commitment to our customers and sustainable business.

OUR UNIQUE INNOVATIONS

We produce and sell food under five (5) brands: Kawan, KG Pastry, Veat, PassionBake and Aman, of which Kawan remains our key brand. We also produce products under customers' brands.

Kawan™ KG PASTRY™ Veat™ PassionBake™ aman™

At Kawan, we strive to meet the needs of our consumers and deliver value added products in terms of quality, taste and unique experience through innovation for our consumers. In FY18, we focused on innovation to resonate with changing consumer trends and demands.

Demand for snacking is growing as consumers are changing their eating habits. To meet consumer demand with new products, we created a greater range of fun convenience innovations:

Rice Bites

- Cheesy Mexican
- Cheesy Italian
- Spanish Paella
- Tom Yum
- Smoked Chicken & Spinach

Croquettes

- Spinach and Cheese
- Spicy Tomato and Cauliflower
- Curry Potatoes
- Potato

In FY18, we launched new distinct products to bring new eating experiences whether to satisfy customers' needs for family eating or simple indulgence:

Savoury Rice Balls

- BBQ Chicken Stuffing
- Chicken Chives Stuffing
- Mushroom Stuffing

Waffle

- Plain
- Belgian Chocolate Chip
- Brussels

- Fulka Chapatti
- 10-inch Puff Pastry

Every day, we strive to improve our food to make sure that we bring values to our customers. We continued to improve our ready to eat frozen food, making our products tastier:

- Nasi Ayam Kari Kapitan
- Nasi Dagang Kelantan (Gulai Ikan)
- Nasi Lemak Royale (Ayam Masak Hitam)
- Mee Hoon Goreng Siam
- Nasi Goreng Ayam
- Nasi Lemak Biasa

EXPORT MARKET

Our Company distributed its products through distributors in foreign countries. Most of our international customers are primarily traditional retailers whereas in the Middle East and Asia, our customers are primarily a mixture of hypermarkets, supermarkets and traditional retailers.

At present, our Company exports our products in all major continents particularly to countries, US, Canada, UAE, UK and Australia.

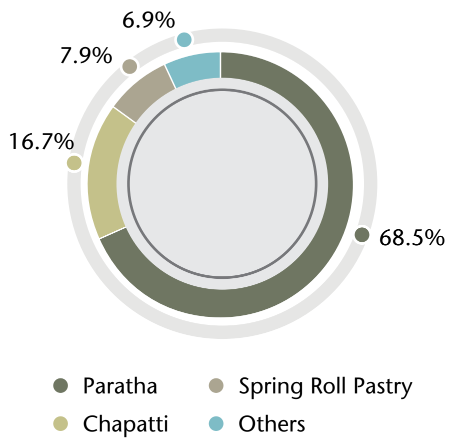
Top five (5) countries in terms of sales

Countries	Sales (%)
United States	43.1%
UK	11.5%
UAE	9.5%
Australia	7.3%
Canada	6.9%

Our top five (5) markets represented approximately 78.3% of our total export revenue. The US remains our largest export market which contributed approximately 43.1% of our total export revenue.

In FY18, the top five (5) customers represented approximately 53.6% of our Group's total export sales.

Export Sales Contribution



Our sales revenue from export decreased by 4.6% to RM106.4m in FY18 from RM111.5m in FY17 mainly due to depreciation of USD despite increase in sales volume of 258 tonnes from our customers.

Paratha remains our core product, contributing approximately 68.5% of our export revenue, followed by chapatti contributing approximately 16.7% of our export revenue for FY18.

In February and October 2018, we participated in the Gulfood Exhibition in Dubai, United Arab Emirates ("UAE") and Sial Paris in Paris respectively. The Gulfood Exhibition is the world's largest annual food event and the Sial Paris is the largest food innovation exhibition. The participation provides us with opportunities to meet existing and new potential customers as well as to keep abreast with market demand and trends.

As we continue to build our presence in countries, we maintain good relationship with our key distributors. We constantly work closely with our customers on local trends, adapt to changing needs, innovate accordingly and keep updated with local cultures. In the US, we have launched pre-cooked products to meet the growing needs of the local consumers. We have also appointed a sales representative in the US to be closer to the customers and better engage with them in finding new ways to inspire tasty convenience choices.

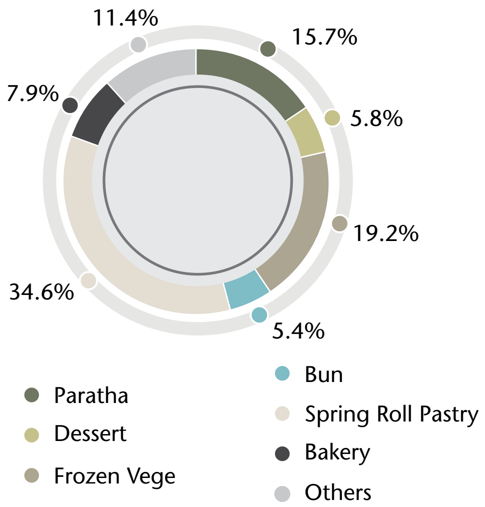
MALAYSIA OPERATION

Our Company distributed our products through various distribution channels, including traditional retailers, hypermarkets, supermarkets and HORECA (hotels, restaurants, caterers).

Our sales office in Shah Alam is responsible for local sales throughout Malaysia. Our sales team ensures that we have a comprehensive coverage of all our markets and constantly reviews the presence and monitors the impact of the channels in each of our geographic markets. We will pursue opportunities to increase our presence in the HORECA. Approximately 13.3% of our sales for FY18 were through HORECA.

The majority of our sales are through retailers. Our key retailer clients in the Malaysia are Giant, Econsave, Mydin, Aeon Co., and Aeon Big. Our top five (5) customers accounted for 26.9% of our local revenues for the FY18.

Malaysia Sales Contribution



The Malaysian economy continues to grow at a moderate pace. Consumers are cautious in spending which has affected the consumption pattern. Despite weaker consumer sentiment, our local sales increased by 6.4% to RM81.2m in FY18 from RM76.3m in FY17. The increase in revenue was mainly contributed by the higher revenue from our spring roll pastry, dessert, frozen vegetable and bun categories. Spring roll pastry is our largest product category, contributing approximately 34.6% of our local revenue for 2018. This was followed by Frozen Vegetable and Paratha, contributing approximately 19.2% and 15.7% of our local revenue respectively in FY18.

Nevertheless, our Company will continuously capitalise on our expertise and innovative capabilities to enhance our consumer experience and improve production processes to remain competitive.

Promoting our brands

Marketing is a key way to engage consumers with our brands. In responding to the tougher environment, we continued to undertake some marketing activities to further enhance our brand awareness in FY18.

Our sales team continues to expand our market presence and develops new business opportunities by conducting ground activities and product samplings at various hypermarkets and supermarkets. During the Hari Raya Adilfitri, the Winter Solstice and the Chinese New Year 2018, we launched social media campaigns to coincide with ethnic festivals.

Our Kawan Cooking Challenge contest, Jom Heboh Carnival in Bukit Jalil Stadium and winter solstice celebration with the children were also a fun, interactive way to inspire consumers to connect with our brands. As a result, our brand is gaining momentum.

We undertook active engagement with our distribution partners to provide training and products knowledge. This demonstrates our continued commitment into expanding our distribution reach via strategic partnerships.

Through awareness campaign, we make commitments to help to spread the importance of breakfast. In FY18, we collaborated with Food Aid Foundation, Dewan Bandaraya Kuala Lumpur and Jabatan Kebajikan Masyarakat Wilayah Persekutuan Kuala Lumpur on Food for Life Breakfast Programme to promote awareness on the importance of breakfast to the children. The programme aims to promote healthy lifestyle among the school children. Developing healthy habits early in life such as having breakfast every day as part of our daily routine will help towards better health and we want to be part of the process.

Expanding in new channel – E-commerce

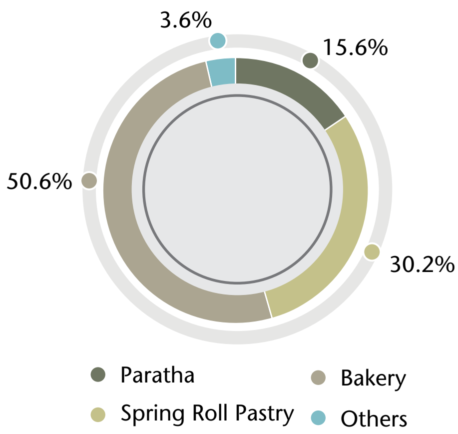
As the rapid development in digital is changing the purchasing habits of Malaysian consumers, the consumers are adapting quickly to online shopping. Emergence of e-commence will be an important growth sector. As such, we have developed our e-commerce platform to capitalise on opportunities to expand our market reach and increase sales. Our online platform provides consumers with our product information. We also partnered with major e-commerce platforms such as Lazada, Shopee, 11street, Potboy and Jocom to increase our product availability online. We will continue to expand in this new channel to reach more consumers all over Malaysia.

CHINA OPERATION

Our plant in Nantong, Jiangsu Province supplied to Shanghai, Beijing, Jiangsu and Fujian, Heibei, Shandong, Zheijiang, Guangdong and AnHui. In FY18, we set up a marketing office in Shanghai to be closer to our customers.

Our customers are mainly industrial users, wholesalers and customers from foodservice channel. Our Company distributes our food products in the China mainly through our distribution network. Our China manufacturing facility also export products into the world market. In FY18, domestic sales accounted for 35.1% of our revenue in China and 64.9% of our revenue from sales to customers for export markets.

China Sales Contribution



The revenue of our China operation increased by 47.6% from RM8.4m in FY17 to RM12.4m in the FY18. Our bakery category continued to perform well in the China market mainly due to growing demand for western style convenience food from the China consumers. The trend has continued to gain momentum and will continue to drive the demand for our products.

OUR PEOPLE

Kawan is made up of 580 people who work together to bring delicious convenient food to our consumers. Our people is our strength. We believe that each and every staff in Kawan is part of us and plays an important role in our success.

Our four shared values guide the way we work and develop our people:

Responsibility
We take ownership and responsibility of our results.

Teamwork
We work together as a team to achieve our mission by having open communication, mutual respect and sharing of knowledge.

Integrity
We are committed to be fair & honest in all our dealings and adhere to the highest ethical standards.

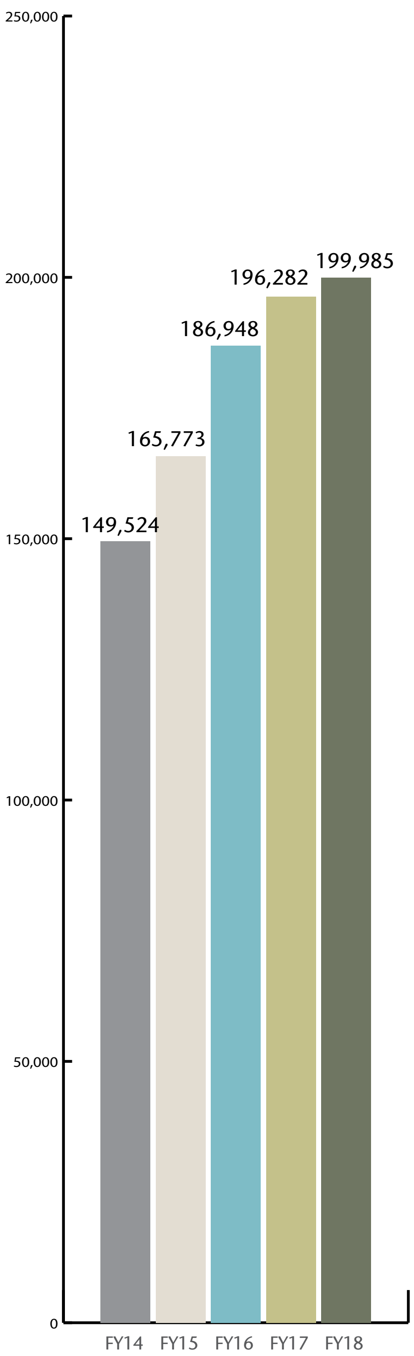
Discipline
We are dedicated and committed to achieve higher efficiency and effectiveness.

Innovative
We embrace new ideas and constantly changing to meet customers' needs.

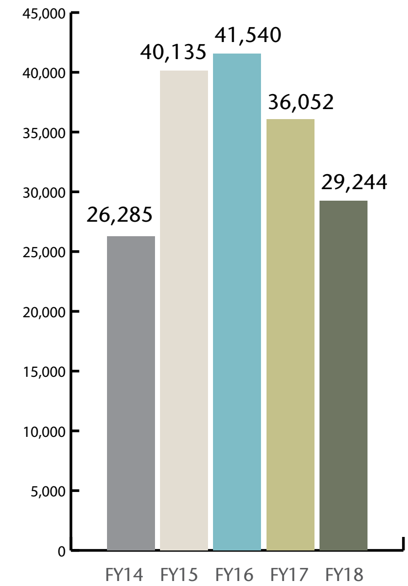
In 2018, we adopted a new approach and streamline our human resource process to reflect the changing environment impacting our business. We embarked some initiatives including talent developments and performance management system which are critical for our future.

FINANCIAL PERFORMANCE REVIEW
OUR KEY INDICATORS

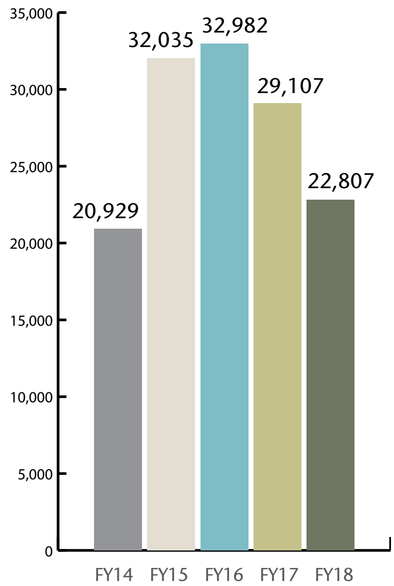
REVENUE
(RM'000)



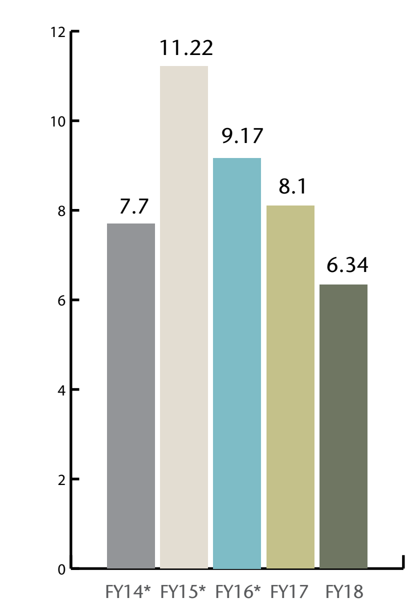
PROFIT BEFORE TAXATION ("PBT")
(RM'000)



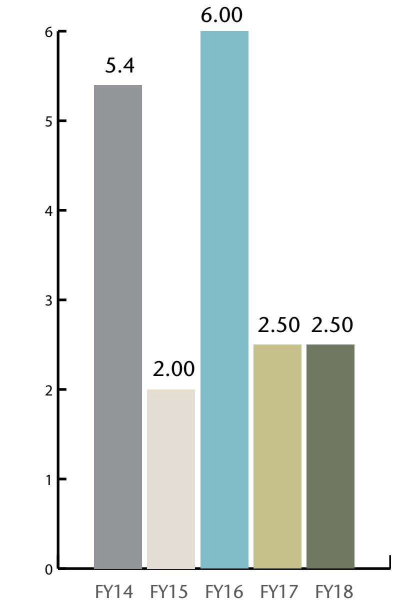
PROFIT AFTER TAXATION ("PAT")
(RM'000)



EARNINGS PER SHARE ("EPS")
(sen)



DIVIDEND PER SHARE ("DPS")
(sen)



* restated due to adjustments made for bonus issue

STATEMENT OF PROFIT AND LOSS (RM'000)

	2014	2015	2016	2017	**2018**
Revenue	149,524	165,773	186,948	196,282	**199,985**
Profit Before Tax	26,285	40,135	41,540	36,052	**29,244**
Taxation	5,356	8,100	8,558	6,946	**6,437**
Profit After Tax	20,929	32,035	32,982	29,106	**22,807**
Non-Controlling Interest	(21)	-	-	-	-
Dividends	6,496	3,657	15,197	6,741	**8,988**
Bonus Issues	28,982	-	-	7,405	-
Retained Earnings (opening)	72,502	57,932	86,310	104,095	**119,055**
Retained Earnings (closing)	57,932	86,310	104,095	119,056	**132,874**

STATEMENT OF FINANCIAL POSITION (RM'000)

	2014	2015	2016	2017	**2018**
Issued and Paid-up Share Capital	91,175	104,839	134,820	179,760	**179,760**
Share Premium	-	11,751	37,535	-	-
Non-Distributable Reserve	5,318	13,906	14,984	9,985	**8,831**
Retained Earnings	57,932	86,310	104,094	119,055	**132,874**
Shareholders' Fund	154,425	216,806	291,433	308,800	**321,465**
Non-Controlling Interest	(5)	-	-	-	-
Deferred Taxation	863	59	291	1,199	**5,660**
Long Term Borrowings	5,842	25,358	20,226	16,603	**12,980**
	161,125	242,223	311,950	326,602	**340,105**
Property, Plant and Equipment, Investment Properties and Prepaid Lease Payments	101,020	158,684	207,565	236,463	**249,827**
Deferred Taxation	27	188	278	407	**476**
Net Current Assets	60,078	83,351	104,107	89,732	**89,802**
	161,125	242,223	311,950	326,602	**340,105**

FINANCIAL RATIO

	2014	2015	2016	2017	**2018**
Revenue growth (%)	18.27	10.87	12.77	4.99	**1.89**
Current ratio (times)	3.37	3.66	3.60	3.17	**3.44**
Cash ratio (times)	1.46	2.01	2.01	1.52	**1.07**
P/E ratio (times)	18.18	32.28	41.44	36.30	**30.13**
Total borrowings/Equity (%)	4.45	12.19	8.18	7.89	**5.16**
Long-term borrowings/Equity (%)	3.78	11.70	6.94	5.38	**4.04**
Basic earnings per share (sen)	*7.70	*11.12	*9.17	8.10	**6.34**
Dividend per share (sen)	5.40	2.00	6.00	2.50	**2.50**
Net assets per share attributable to shareholders of the Company (RM)	0.85	1.03	1.08	0.86	**0.89**
Share price - High (RM)	2.75	4.00	4.00	5.07	**3.08**
Share price - Low (RM)	1.30	1.40	3.00	2.90	**1.81**
Share price at 31 December	1.40	3.59	3.80	2.94	**1.91**
Company market capitalisation (RM'000)	255,289	752,742	1,024,631	1,056,988	**686,683**

* restated due to adjustments for bonus issue

FIVE YEAR DIVIDEND PAYMENT AS % OF PROFIT AFTER TAX

	2014	2015	2016	2017	2018
Profit after tax (RM'000)	20,929	32,035	32,982	29,106	22,807
Dividend paid (RM'000)	6,496	3,657	15,197	6,741	8,988
Dividend payment as % of profit after tax	31%	11%	46%	23%	39%

The Group revenue increased by 1.9% to RM200.0m in FY18. The increase in revenue was largely attributed to higher sales orders from our major customers in Malaysia.

In term of revenue contribution by geographical segments, Malaysia remains the largest market for Kawan, generating 40.6% of the Group turnover, followed by North America (26.6%) and Asia (19.1%).

The Group PBT in FY18 dropped 18.9% to RM29.2m. The decrease in PBT was mainly attributed to start-up costs and unfavourable exchange rate.

CAPITAL EXPENDITURE

During the year under review, the Group incurred capital expenditures amounting to RM21.3m on acquisition of property, plant and equipment for the Pulau Indah expansion project. This was funded through internally generated funds.

DIVIDEND

In FY18, the Company declared and paid an interim single tier dividend of 2.5 sen per ordinary share amounting to RM8.99m.

On 4 March 2019, the Company declared an interim single tier dividend of 2.5 sen per ordinary share amounting to RM8.99m in respect of the financial year ending 31 December 2019. The dividend was paid on 29 March 2019.

OUTLOOK

Today's consumers want healthier food. To meet these needs, we aim to deliver a broader portfolio with quality and value for the people while enhancing healthier choices in a responsible way. In 2019, Kawan will innovate to launch its low GI range with high quality ingredients, targeting consumers who are health conscious or those with particular dietary restrictions.

To reconnect our brands with the consumers, our marketing department will launch campaigns highlighting healthier categories, creating consumers' awareness of the products quality and safety. To inspire healthier eating practices, we strive to undertake various strategic marketing activities, brand enhancement activities, product innovations that promote healthier eating habits for distribution in the world that create social and economic values. We will continue to invest to expand our distribution channels including e-commerce to better engage with consumers and to drive new opportunities.

The food industry remain volatile and consumer sentiment remain weak. Our Group may be exposed to currencies, increasing competition and escalating costs in raw material and maintenance expenditure. BREXIT and the US China Trade War could also create uncertainties on the future between our Nantong Manufacturing and export markets. However, we see opportunities in the trade war and our new factory in Pulau Indah will bring longer term relief for Kawan. Nevertheless, Kawan will continue to improve its operational efficiencies and effectiveness with cost optimisation.

Our Company also emphasises various forms of value creation, opens up possibilities and explores potential opportunities. In October 2018, Kawan partnered with France and Japan companies through a joint venture ("JV") to offer a wider range of choices to different markets with high potential growth.

In December 2018, we have decided to deploy a new enterprise planning system, a fully integrated system that would support our key business processes and enhance decision making to replace the older version. The new system will connect all our operations, centralise production planning and management functions across the departments that optimise our business units and support growth.

To fulfil our vision to be the leading international company that provides products which create values and enhance lifestyle of our customers, we aim to expand our products range both locally and internationally. We are committed to create value in a sustainable way to our stakeholders and contribute to economic, social and environmental developments. Hence, we are working heavily in research and development, people development, corporate social responsibility and corporate governance towards sustainable growth.

APPRECIATION

On behalf of the Board, I would like to thank Mr. Lim Peng @ Lim Pang Tun as our Independent Director who will retire from the Board at the end of the AGM for his dedicated services to the Group since May 2005. We wish Mr. Lim Peng @ Lim Pang Tun the very best.

In November 2018, we were pleased to welcome Mr. Eugene Hon Kah Weng as a new Independent Non-Executive Director.

I am thankful to my Board for their valuable contributions and guidance throughout the year. On behalf of the Board, I would like to thank all our employees for your hard work and dedication to the Company. I would also like to thank our other stakeholders – shareholders, customers, suppliers, business partners and stockholders for your trust and confidence in Kawan. All your efforts have driven the expansion of our business and moving us towards our long sustainability journey.

With your constant support, we will continue to generate profitable sustainable growth now and in the future.

Timothy Tan Heng Han
Managing Director

SUSTAINABILITY STATEMENT

SCOPE OF THE STATEMENT

This Sustainability Statement 2018 is prepared in accordance with Sustainability Reporting Guide issued by Bursa Malaysia Main Market Securities Berhad. Unless otherwise stated, this Sustainability statement covers our sustainability performance of the operations of Kawan Food and its subsidiaries ("**Group**" or "**Kawan Group**") in the financial year ended 31 December 2018 ("FY2018").

SUSTAINABILITY

Listed on the Malaysia stock exchange in 2005, Kawan is an established company with well-known brands that enjoy strong market presence in approximately 40 countries spanning USA, Europe, Middle East and Asia.

As an established food manufacturer, we understand that to be sustainable in the long term, we need to create values and make positive contributions for our people, society and environment.

In responding to this rapidly changing world, we have incorporated sustainability into our vision, mission, values and business operations. Our mission demonstrates our commitment towards creating values for our stakeholders in a sustainable way and outlines our aim to further strengthen our position in the market and to achieve long term growth and profitability. It sets an important direction for our people to put efforts and initiatives towards achieving our vision while conducting our business in a responsible way that makes a positive difference for people and the environment today and tomorrow.

OUR SUSTAINABILITY APPROACH

GOVERNANCE

The Board of Directors ("BOD") is accountable for overseeing sustainability across the Company whilst the Managing Director ("MD") is responsible for driving and managing sustainability across the business. He leads the Sustainability Committee ("SC") and reports key sustainability matters to the Board.

The SC, which comprises of Head of Departments is established as a working committee to implement sustainability strategies and to monitor the progress of the company's sustainability performance. In FY18, the SC met two times to discuss our stakeholders' concerns, our material matters, business goals and strategies.

Sustainability Governance Structure

Chairman : Managing Director

Secretary : Corporate/Admin representative

Members : Head of departments

- Marketing
- Human Resources
- Safety & Health
- Finance
- Production
- Quality Assurance & Control
- Research & Development
- Sales
- Warehousing/Logistics
- Engineering/Maintenance
- Purchasing
- IT

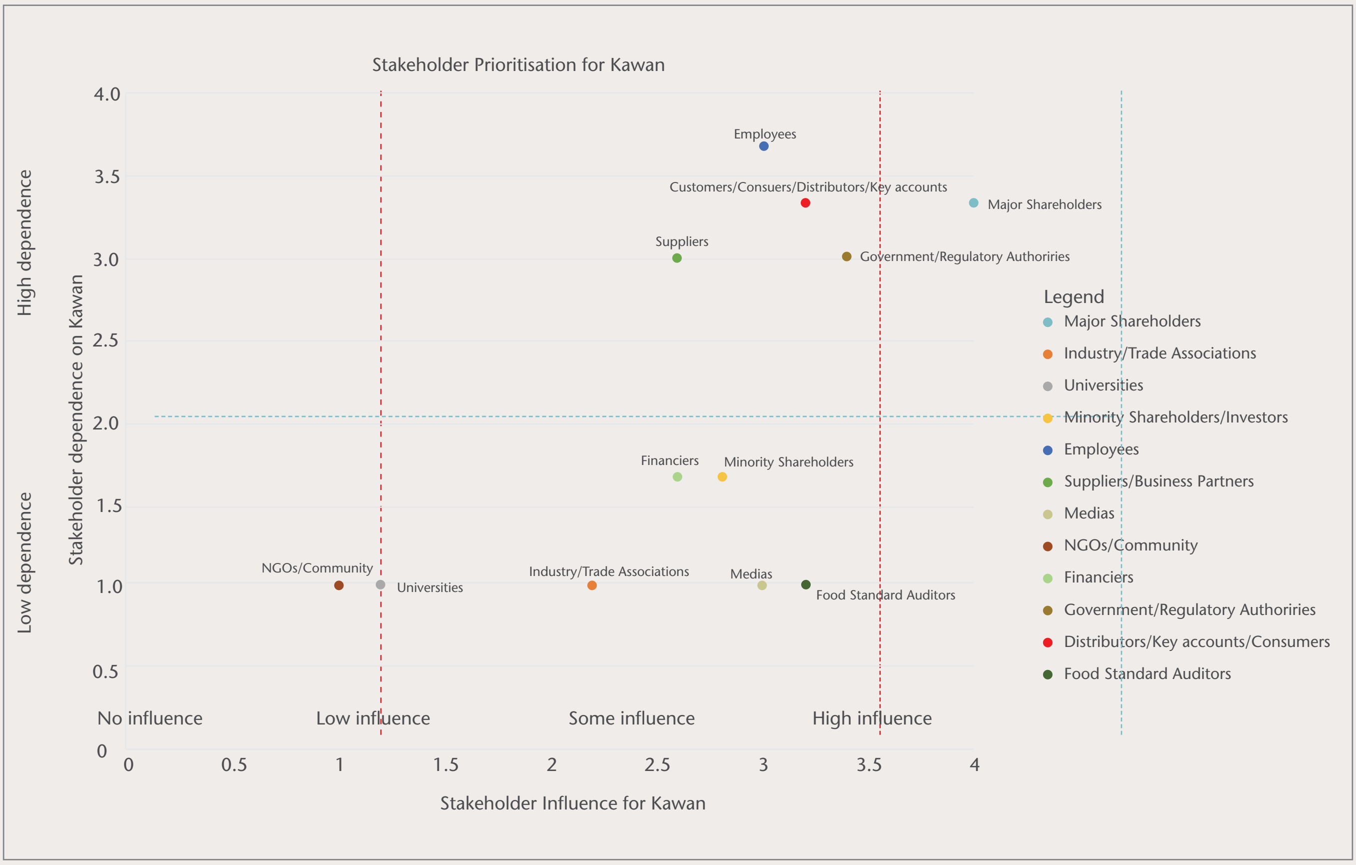
Stakeholder Engagement

Stakeholder engagement is critical to us moving forward. We are cognisant of our stakeholders' feedbacks and interact with a wide range of stakeholders through different channels regarding their interests and concerns. Engaging with the stakeholders enable us to understand our stakeholders' needs and provides us valuable inputs for improvements and insights that helps us identify the material matters that are important to our stakeholders in our business.

In FY18, we initiated an exercise to identify and prioritise our stakeholders based on the level of the influence of the stakeholders on Kawan and the Company's impact on them.

Our key stakeholders are as follows:

- Major shareholders
- Minority Shareholders/Investors
- Food Standard Auditors
- Distributors/Key accounts/Consumers
- Employees
- Government/Regulatory Authorities
- Industry/Trade Associations
- Suppliers/Business Partners
- Universities
- NGOs/Community
- Financiers
- Medias



We engage with our various stakeholders through different channels as set out below.

Stakeholders	Engagement Methods	Frequency	Key concern/Focus Area	How we address:
Majority Shareholders	• Annual General Meeting/Extra-ordinary General Meeting • Quarterly and Annual Reports, Announcements	• Annually • Quarterly/ Annually	• Company Performance • Profitability/Growth • Company Direction and Strategy • Dividend • Corporate Governance • Sustainability	• Corporate Governance and Ethics • Economic Sustainability
Employees	• Sports and Social Club (Comm.3) • Events – Annual Dinner, Festive Celebrations etc. • Departmental Meetings • Teambuilding • Townhall • Kawan Connect (e-Newsletter) • Policies and Procedures	• Ad-hoc • Ad-hoc • Ongoing • Ad-hoc • Ad-hoc • Quarterly • Yearly	• Employee Remuneration And Benefits • Occupational Health and Safety • Career Development and Training • Corporate Strategy	• Occupational Health and Safety • Diversity and Inclusion • Training and Development • Economic Sustainability
Distributors/ Key accounts/ Consumer	• Customer Feedback Survey • Customer Visits/ Meeting • Exhibitions/Road-shows • End User Feedback via Email and Social Media	• Quarterly • Ongoing • Ongoing • Ongoing	• Product Quality • On Time Delivery • Stock Availability • Product Innovation • Marketing and Branding • Product Knowledge • Affordability • Customer Relations Management	• Food Safety and Quality • Product Innovation
Food Standards Auditors	• Compliance Audits	• Yearly • Ad-hoc check and planned audit	• Food Quality and Safety	• Food Safety and Quality • Occupational Health and Safety
Government/ Regulatory Authorities	• Statutory Submissions • Meetings/Work-shops • Site Visits/Conferences	• Monthly/ Yearly/ Quarterly • Ad-hoc • Ad-hoc	• Socioeconomic/Legal Compliance • Product Quality and Food Safety	• Food Safety and Quality • Corporate Governance and Ethics • Environmental Management • Economic Sustainability

Stakeholders	Engagement Methods	Frequency	Key concern/Focus Area	How we address:
Suppliers/ Business Partners	• Contractual/Annual Review • Regular Meetings • Supplier Evaluation Audits	• Quarterly • Yearly • Ad-hoc	• Payment • Procurement Practices • Compliance With Rules and Regulations • Ethics Business Practices	• Corporate Governance and Ethics • Responsible Sourcing • Food Safety and Quality • Economic Sustainability
Media	• Interviews/Press Release • Advertisements • New Product Launches	• Ad-hoc • Ad-hoc • Ad-hoc	• Product Awareness/New Product Launch • Product Information • Branding • Financial Performance	• Food Safety and Quality • Corporate Governance and Ethics • Economic Sustainability
Communities/ NGOs	• Corporate Social Responsibility Activities	• Ad-hoc	• Community Engagement • Social and Environmental Concerns	• Community Engagement • Environmental Management
Industry/Trade Associations	• Association Meetings • Trainings • Exhibitions	• Ad-hoc • Ad-hoc • Ad-hoc	• Current and Future Industry Outlook and Challenges • Market Trend	• Corporate Governance and Ethics • Economic Sustainability
Minority Shareholders/ Investors	• Annual General Meeting/Extraordinary General Meeting • Quarterly and Annual Reports, Announcements • Corporate Website • Analyst Briefings/ Meetings	• Annually • Quarterly/ Annually • Ad-hoc • Ad-hoc	• Company Performance • Profitability/Growth • Company Direction and Strategy • Dividend • Corporate Governance • Sustainability	• Corporate Governance and Ethics • Economic Sustainability
Financiers	• Training	• Ad-hoc	• Financial Performance	• Economic Sustainability
Universities	• Training • Internships	• Ad-hoc • Ad-hoc	• Training	• Training and Development

MATERIALITY

In the previous year, the Company conducted a materiality assessment to identify, assess and prioritise the issues that are relevant to Kawan and its stakeholders. In FY18, we reviewed our materiality matrix based on an internal review with our management, taking into account internal and external views of our stakeholders. During the review, we updated the list of material issues that reflect the current priorities and concerns of our stakeholders with our business objectives and prioritised these issues by considering the significance of the impact of each issue on us and the importance of that issue to our stakeholders. We also benchmarked against our industry peers.

Through the process, we have identified ten (10) key material issues, six (6) of which are of high importance and high influences.

Materiality Matrix

Importance

• Product Innovation		• Economic sustainability • Occupational Health and Safety • Food Safety and Quality • Training and Development • Environmental Management • Corporate Governance and Ethics
	• Diversity and Inclusion	
• Community Investment		• Responsible Sourcing

Influence

ECONOMIC SUSTAINABILITY

We believe that a sustainable business performance enables us to create values to our stakeholders - enhance values for our shareholders, create opportunities for employees and contribute to the communities in which we operate.

REVENUE	NET PROFIT	COMMUNITY INVESTMENT	TAXATION
200M	22.8M	78.6K	6.4M

Memberships

We believe that our memberships/participation in trade and industry associations contribute to food industry in ways that enhance Malaysia's competitiveness in international market. We participate in meetings to share views, exchange ideas and keep abreast of latest market developments. Our memberships include:

- Malaysia External Trade Development Corporation ("MATRADE"); and
- Federation of Malaysian Manufacturers ("FMM");

In FY18, we participated in the following trade exhibitions in promoting Malaysian food:

- Alimentec, Columbia;
- Gulfood, Dubai;
- Sial, Paris; and
- Selangor Fest, Malaysia.

FOOD SAFETY AND QUALITY

Enriching people's life through consistent delivery of high quality, safe and convenient food is part of our mission to create values for the people. We want our customers to consume safe and high quality food and to be confident and safe with our food products. Quality reinforces our brands in the market, encourages customer loyalty and viability of our business.

We make sure that our food is safe and of high quality and that our customers who choose to consume our food have a positive experience rather than just compliance with all the regulatory requirements. We follow strictly with our food and safety policy. The policy outlines the steps required to identify, control and monitor key points of the potential risk to our operation. Our food safety team oversees our food safety performance across the supply chain, starting from sourcing of ingredients, research and development, food production, packaging to product delivery. The team directly reports to our MD.

To ensure high quality safe products:

- We place emphasis on sourcing quality raw materials.
- We regularly audit our own operations to ensure that we meet specific standards on food safety;
- We maintain Hazard Analysis Critical Control Point (HACCP) system at our plants to identify and safeguard against potential risks of our operations. HACCP systems perform analysis of potential hazards to human health, whether in chemical, physical or microbial in nature. Under such systems, we take appropriate steps to assure that potentially hazardous products do not reach our consumers.
- We continuously review and improve our food safety systems and procedures. These includes performing tests and analysis on raw materials, packaging, quality of our suppliers and products;
- We continue to invest in our plants with new equipments and technologies to deliver high food safety and quality standards;
- Our employees are trained on Good Manufacturing Practices (GMPs) for hygiene purpose. We also provide training for our employees on food standards and updates to the standards yearly.
- We monitor optimal temperature throughout storage, transportation and distribution stages.

Our production processes are monitored by our quality control and assurance team and are certified by independent food safety auditors against internationally recognised standards such as Global Standard for Food Safety ("Issue 8") ("GSI8") (formerly known as British Retail Consortium ("BRC")), HACCP MS1480 and HALAL. In FY18, we complied with all the relevant national and international food regulations.

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PRODUCT RECALLS

Customer Relationship Management

Customer satisfaction is one of our top priorities and we are committed to improve customer experience in providing quality products that meet customer demand and satisfaction. Customer feedbacks are important to help us identify issues in our products and/or understand their expectations. Hence, customer feedback survey is conducted quarterly and used as an assessment on customer satisfaction and loyalty. The survey includes questions regarding overall satisfaction, product quality, availability of product, timeliness of products, customer care and complaints etc.

In FY18, Kawan carried out its customer satisfaction survey and 220 customers responded. The average customer satisfaction score is four (4) out of a maximum five (5) – indicating a "very good" rating by our customers.

To reach out to our consumers, Kawan embarks on social media via Facebook. We have uploaded products information, recipes and interactive videos to provide latest updates and to capture the interest of our consumers. This resulted in 111,000 fans following on the Kawan Facebook page. This popular channel enables us to interact with our consumers regularly and provide a platform for us to understand our consumers' views and expectations.

We have established consumer complaint procedures for our consumers enquires and concerns. Customers and consumers can submit enquires and complaints to us via sales personnel, website, social media or normal post to our office. Any complaints or enquiries made are generally diverted to our sales and marketing departments. Upon receipt of any complaint, the sales and/or marketing department will forward it to the relevant personnel(s) for further investigation. In FY18, we received various enquires and 80 complaints on product quality. All complaints were addressed by the respective departments and necessary actions have been taken to prevent recurrence of the issues.

CORPORATE GOVERNANCE AND ETHICS

Good corporate governance and ethical business practices are essential to long term success of the Company. Strong corporate governance and ethics set the tone for the culture of the organisation and provide guidance for employees in making decisions. At Kawan, we understand that having a sound corporate governance practices not only increases the confidence level of the shareholders but allows us to drive business development whilst conducting our business in compliance with the law and highest standard of business ethics.

Our Code of Conduct and Ethics ("COCE") sets out a clear set of standards of conduct and behaviour that we expect our employees to follow. The COCE covers staffs, customers, suppliers and other stakeholders outside the Group. Upon joining, all new employees are required to read the COCE, acknowledge and sign the statement that they have read the Code and to comply with the Code.

Kawan has a zero tolerance approach towards fraud and corruption. In FY18, we updated our COCE to include provisions relating to prohibited activities or misconducts such as anti-corruption, money laundering and insider trading. Any form of bribes among the employees and third parties with whom we conduct business with is strictly prohibited.

We also have a whistleblowing policy where employees may raise concerns and/or report activities that may be unethical, improper or violation of rules and regulations with confidentiality and anonymously. When a report is being made, it receives immediate attention where HR or management are involved to address it. The Audit Committee is responsible for overseeing the implementation of the whistleblowing process. The whistleblowing procedures are available on our corporate website.

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WHISTLEBLOWING

Compliance with Laws and Standards

We are committed to conduct our business in accordance with all the relevant laws and regulations. We recognise that one of the main concerns for consumers is product safety and quality, hence, we strive to comply with all the relevant laws and standards. We adhere to the following laws and standards to demonstrate our responsibility to the society and the environment.

Quality	• British Retail Consortium (BRC) • HACCP MS1480 • GMP • HALAL
Labour	• Employment & Labour Law
Safety, Health and Environment	• OSHAS • Environmental Policy

0
NON-COMPLIANCE

RESPONSIBLE SOURCING

Ensuring a sustainable supply chain is vital to the business. We source a variety of raw materials for our production-ingredients for food; paper and plastics for packaging, machines for our plants and warehouses.

As one of the leading food manufacturers, we uphold high standards of quality and product safety. We have a stringent process in place for our products to ensure food safety. We make sure all our suppliers adhere to our purchasing standards and practice good business ethics. Our purchasing policy sets out minimum requirements and expectations of our suppliers related to legal compliance, health and safety, process and supplier performance.

We place emphasis on sourcing quality materials from suppliers. We make efforts to ensure ingredients that we use in our products are of high quality. We communicate with our suppliers and maintain good supplier relationships to ensure continuous supply of quality materials, favourable terms, deliveries in timely manner in meeting our needs.

Supplier assessment is conducted annually to monitor the performance of our suppliers. The assessment includes quality and food safety, delivery, service, safety, health and environments. In FY18, more than 80% of our suppliers meets the criterias set out in our purchasing policy. For non-compliant suppliers, we conduct audits on those suppliers and their sites to identify the issues. We work together with the suppliers to address and resolve the issues identified in the audits within a predetermined period. Suppliers who continue not to comply with our requirements will be terminated.

We are committed to responsible sourcing of raw materials by having traceability through our supply chain and ensuring a high level of transparency in raw materials. Hence, we only source suppliers who are approved either by an independent third-party audit such as the GSI8, ISO, HACCP etc or third-party audit report on traceability. We also focus on quality, delivery, price and performance of our suppliers. For new suppliers, all new materials and specifications must be tested and approved by the Research and Development as well as Quality Assurance departments.

Local sourcing is one of consideration in our procurement strategy. We source 90% of our ingredients locally where possible in order to support local industries. We try to engage suppliers closest to our operations. This allows us to source our materials where applicable, reducing lead time and transportation costs as well as reducing pollution from reduced distance.

We support Roundtable on Sustainable Palm Oil (“RSPO”) – an organisation that promotes growth and use of sustainable palm oil. We only purchase palm oil from RSPO members in our products.

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SUPPLIERS
Terminated

14
SUPPLIERS
Non-compliance

100%
RSPO CERTIFIED

PRODUCTS INNOVATION

At Kawan, the way we think about making products is based on the following principles:

- Functional – products that makes everyday life easier and convenient
- Quality – high quality products for everyday life
- Sustainable – products that are good for people, society and environment.
- Affordable – products that are affordable to many people.

We are investing in innovation, product development and testing to improve the quality and safety of our products. For example, in FY18, the Company launched new innovative products such as Savoury Rice Ball – BBQ Chicken, Chicken Chives & Mushroom and Fulka Chapatti etc.

OUR PEOPLE

In FY18, we created a new vision which sets out its purpose and strategy for our future. We believe that in creating a new vision, we bring our people together, working towards one unifying goal, so that we can embrace our future as one unified Kawan that aspires us to making positive changes to economic, social and environment.

Our five (5) new values outline below align closely with our vision and mission. These values provide guidance on how we should behave and work with each other in our business.

Our Values

Responsibility
We take ownership and responsibility for our results.

Teamwork
We work together as a team to achieve our mission by having open communication, mutual respect and sharing of knowledge.

Integrity
We are committed to be fair & honest in all our dealings and adhere to the highest ethical standard.

Discipline
We are dedicated and committed to achieve higher efficiency and effectiveness.

Innovative
We embrace new ideas and constantly changing to meet customers' needs.

To help our people understand the importance of our vision, mission and values, we ran five (5) workshops which 94 employees at all levels of the organisation have participated. In the workshops, we worked to create awareness and embedding our values into our work practices. We expect everyone in the Kawan to embrace our values. With our corporate values, we will create values in sustainable way to our stakeholders – investors, customers, regulators, employees and local communities that contributes to economic, social and environmental developments.

Diversity and inclusion

At Kawan, we work to create a diverse workforce which made up of people with diverse backgrounds, skills, experience and needs.

We value diversity & inclusion and recognise that diversity brings competitive advantage to our company. Our Diversity Policy established in previous year aims at creating an inclusive and diverse working environment where each person feels appreciated and has the opportunities to learn, develop and contribute.

We focus on hiring and promoting ethnically diverse people based on merit, capability and experience. We do not discriminate. We believe that we treat everyone fairly and provide a variety of opportunities for our people regardless of their age, gender, identity, ethnicity, race or religion to develop.

We provide fair labour practice. We do not hire child labour or forced labour. We complied with applicable laws and procedures in hiring foreign workers. Upon hiring the foreign workers, we provide safe accommodation, transportation and medical cost. In FY18, we employed 426 employees. We prioritise to provide local employment opportunities wherever we operate. 56% of our workforce are local.

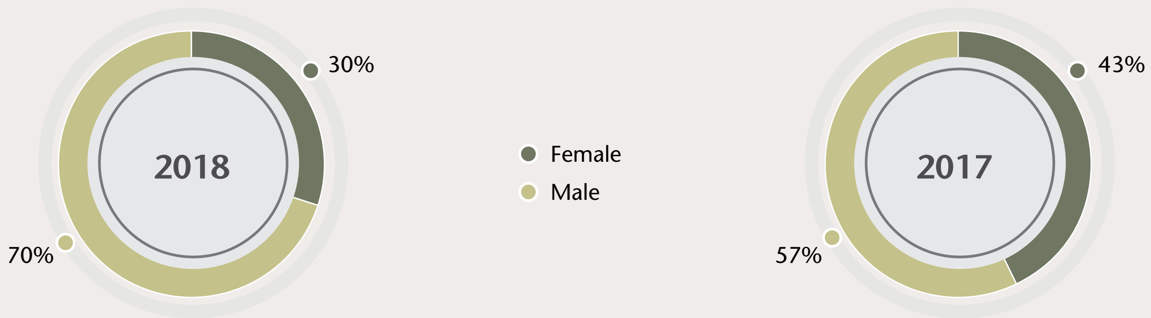
426

Employees

Breakdown by Employment by Ethnic

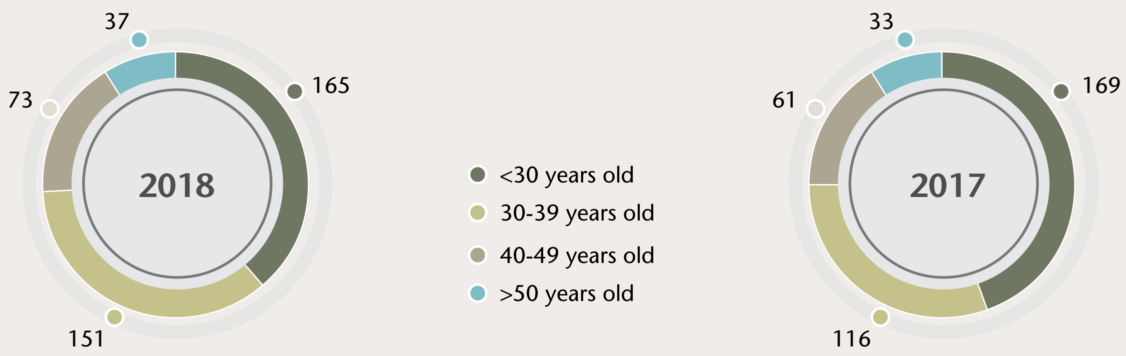
All of the foreign workers we hire are for factory or general work purposes.

Breakdown by Employment by Gender



The reason for higher percentage of males is due to increase in hiring of foreign male workers.

Breakdown by Employment by Age Group



Most of our staff falls in 30-39 and below 30 age groups. We have managed to attract young talents to the Company.

Developing our people

People are key to our success. We aim to develop our workforce to manage our business efficiently and effectively while delivering high quality, safe and convenient food consistently to our consumers. Hence, we are committed to attracting, developing and retaining talented, diverse people to foster a culture where all our people share a unifying vision, respect and are determined to make our vision a reality.

Attracting, developing and retaining talented individuals are vital to deliver our long-term business goals.

Training and development

In FY18, we implemented a talent development strategy which are critical for Kawan's future to reflect the changing environment impacting our business as our business grows. We embarked on some initiatives including restructuring our organisational structure to align our structure and people toward higher efficiencies, development of career mapping for employees and introduction to performance management system ("PMS"). The system helps our people identify gaps in their learning and monitor their performance. This also enables us to develop capabilities of our people at all levels within Kawan with appropriate learning and development to meet future needs.

We provide our people with a range of learning and development opportunities in a variety of ways, including:

- On-the-job training
- Workshops, classroom training on product knowledge, operations, quality and job specific skills.

Developing leaders is also important to our future success. We are committed to develop our people who brings their skills to Kawan. This year, we reviewed our talent pool to identify and develop talented people who we believe will become future leaders within Kawan. Through a variety of opportunities, we are helping the future workforce and leaders to support and develop the skills required to sustain the business.

At the same time, we seek ways to attract and retain talent that is competent for our sustainable growth. We use various channels including jobs portals for recruitment. To seek new young talent, we extend working with universities to provide internship to students of practical working experience where the young people can better understand their opportunities and to develop valuable technical skills. In FY18, we recruited a young talent who has had his internship with us.

Occupational Health & Safety

The safety of our people is our priority. We own the responsibility to keep our people safe at Kawan. Currently, we employ 426 people and we strive to reduce safety incidents in our operations through engagement and trainings. To ensure best practice and continuous improvement, we operate strictly based on the regulatory requirements and industry best practice. We also work hard to create a culture that takes safety seriously. We engage our people with the importance of safety, conduct training and create awareness on safety issues.

The Company has established an occupational health and safety policy which covers the employees, visitors and contractors. Our Health and Safety Committee ("OHSAS Committee") consists of 10 members. The OHSAS Committee is chaired by HR and Operations manager and supported by the respective head of departments. The OSHAS Committee overseas all health and safety matters as

required by applicable laws and regulations for safety working practices. The committee meets regularly to review safety performance and discuss material matters to keep our people safe.

5

LOST TIME INJURIES

We also have a safety and health officer who monitors our working practices to ensure that our plants are safe to work. The officer monitors safety performance on a regular basis and manages steps to reduce injury rate for our employees. All injuries are reported to the management. Lost Time Injuries has decreased to five (5) in FY18 compared to six (6) in FY17. There was a decrease despite an increase in number of employees as a result of continued focus on safety training and awareness raising across the units.

We have robust procedures to minimise risk including safety training, inspections, monitoring and reporting of all incidents. All new factory workers undertake a safety induction course including manual handling, machinery training and fire safety. All our employees are trained to work on their duties or the equipments. In FY18, Kawan has further enhanced its safety culture through ongoing communication. Throughout the year, we encourage hazard reporting, raising awareness of issues and engaging our people with the importance of safety. We have also set up an Emergency Response Team to handle various emergencies in Kawan.

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FATALITY

0

SAFETY FINES

Connecting people

Engaging with employees is important. We make efforts to connect our people in a variety of ways - annual dinner, team building, festival celebrations, townhall etc. In FY18, we set up Kawan Connect to engage our people with latest news and developments of the Company quarterly.

Every year, we celebrate and recognise the achievements and contribution of our people through “Best Employees Awards” and “Long Service Awards”. In FY18, 49 employees received their long service awards of 10-25 years for loyalties.

We encourage open conversations between our employees and their managers through face to face meetings. We have a grievance policy in place. At Kawan, our people can express concerns to management or report any concerns through various channels such as email, telephone etc. If an employee is unable to discuss a matter with their manager or human resources, the employee is able to communicate directly with our Managing Director.

0

GRIEVANCE

Communities engagement

As an established manufacturing company, we have a responsibility to our local communities where we operate. We aim to building trust in the society and make positive contribution in a variety of ways - volunteering, financial and in-kind contributions. In doing so, we are making a difference in our communities.

We work closely with local charities or non-profit organisations to feed the less fortunate people. This year, Kawan collaborates with Food Aid Foundation, Dewan Bandaraya Kuala Lumpur and Jabatan Kebajikan Masyarakat Wilayah Persekutuan Kuala Lumpur on Food for Life Breakfast Programme. This programme is intended to serve breakfast to the urban underprivileged students from Project Perumahan Rakyat and to promote awareness on the importance of breakfast to the children. To date, we have served 217 children everyday before school.

During the year, we undertake the following events:

Dates	Events/Charities	Description
May 2018	Hari Raya Songkoks and Shawl Contributions to Rumah Perlindungan Safiyyah	Donated our food products, 36 songkok and 37 tudung for the orphanages. Volunteers from Kawan spent the day having fun with the children.
June 2018	RCS Malam Iftar with HIV infected and affected children	The Royal Commonwealth Society together with Food Aid Foundation and Kawan invited HIV infected and affected kids for an Iftar night where they play games and had a good time.
June 2018	Visit to PJ Caring Home	Distributed food and essentials items to mentally challenged residents.
July 2018	Donation in kind to Pusat Jagaan Jing Yuan	Donated Kawan products and collected items from our staff to charity homes for patients with terminal illness and old people who are struggling to cope with illness.

ENVIRONMENT MANAGEMENT

As a responsible business, we strive to make positive contributions to minimise the environmental impact of our operation in moving towards a greener sustainable future. We aim to operate sustainably by minimising waste and using resources efficiently. We are constantly looking for ways to reduce environmental impacts of our operations, which in turn lower our costs, increase operational efficiencies and enhance our corporate reputation.

Awareness

At Kawan, we are seeking to reduce our environmental footprint by engaging and educating our people.

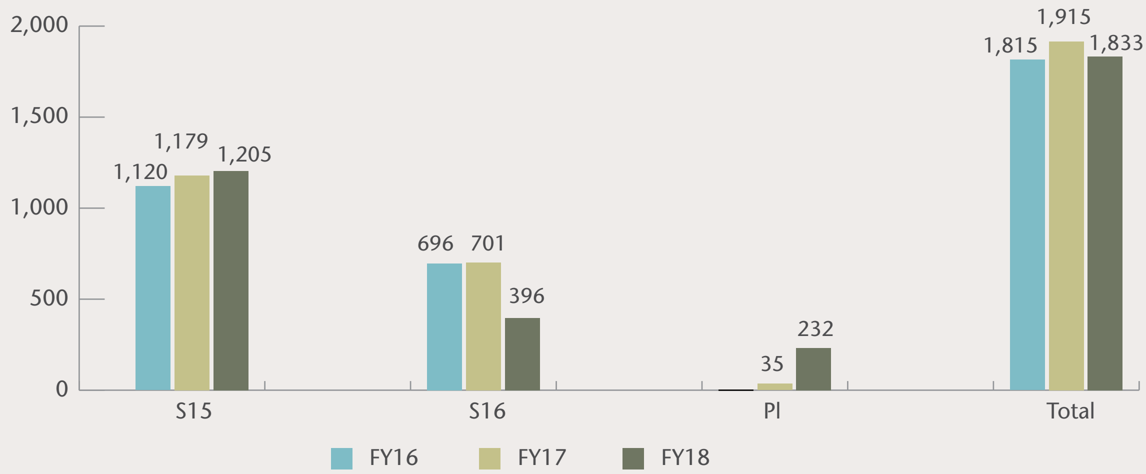
- We had a training for the directors and head of departments in September 2018 to ensure our management understand about sustainability and to find ways to lead sustainability practices across the operations.
- In the September 2018 issue of Kawan Connect, our internal e-newsletter, we introduced sustainability to our people. The objective of inclusion of sustainability in the e-newsletter is to educate our people about sustainability and encourage them to embedding sustainability into their working practices.

Energy and carbon emissions

Our new facility was designed and constructed in a way that reduces demand for energy resource and has lower carbon emissions than other typical buildings.

We have also incorporated a few environmental innovations linked to energy saving into the new factory. For example, we chose thermal insulation system to conserve energy so we could increase the energy efficiency of the factory. Other energy-saving features such as ASRS systems in our warehouse, ice bank cooling system and LED lights throughout the building. The glass roofs and window displays are designed to intensify natural light so we only use electrical lighting when we need.

Energy Use (kWh/m²)



Our main energy sources - electricity, gas and diesel are mainly used for food production and refrigerant in the warehouse. Electricity remains our key energy source.

As a result of our energy efficiency improvements initiatives as mentioned above, our energy usage decreased by 4.3% to 1,833kWh/m^2 in FY18. We will continue to monitor our energy consumption and explore new ways to increase the energy efficiency of our plant.

At the same time, we will continue to encourage our employees to practice the following:

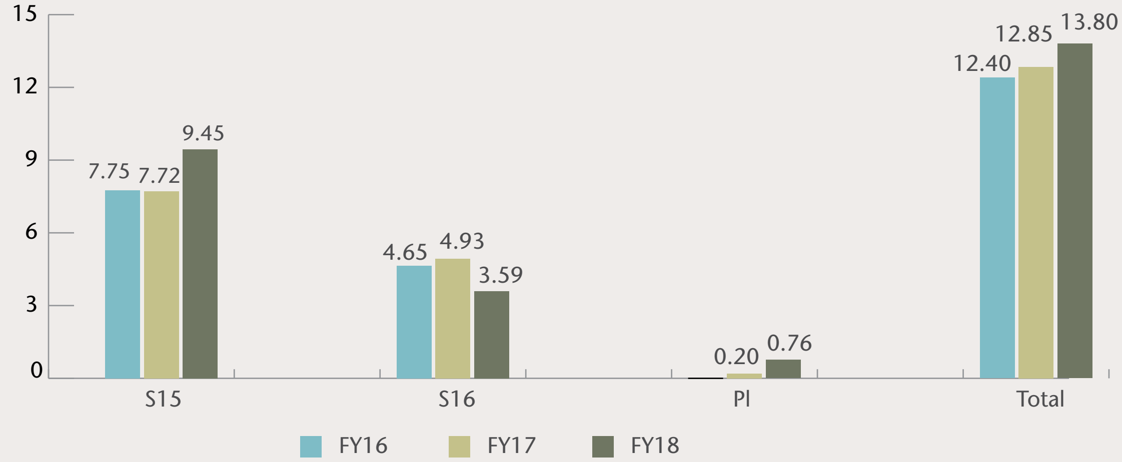
- Turn off lights, air conditioning or other electrical appliances in the rooms, pantries, toilets when they are not required.
- Turn off lights when the rooms are not occupied

Water

Water is a fundamental resource to our business. We rely on clean water for our food processes. Water scarcity, water issues such as inconsistent supply as well as pollution will affect our operations. Hence, it is vital that we maintain sustainable supplies of water and to use water as efficiently as possible in our operations, both now and for the future.

We undertook various initiatives to manage our water consumption such as monitoring our water bills for leakage control, collection of rainwater from conservation tanks to be used for general purposes and release toilet flushing tanks. We also conducted a feasibility study on our water conservation to monitor our water pressure at our operational site so that we could analyse and manage risks to water appropriately. In addition to the ongoing initiatives, we are in the midst of constructing a waste water treatment plant to treat our waste water with minimum impact on the environment.

Water Use (m^3/m^2)



We source water from municipal water supply with most being used for food production. In our new plant, we also use rain water from the catchments for non-production purposes such as toilet flushing and lorries washing.

In FY18, our water consumption was $13.8m^3/m^2$, increased by 7.4% compare to previous year due to implementation of new production lines.

Waste

At Kawan, we place high emphasis in managing our resources responsibly with the following 3R principles:

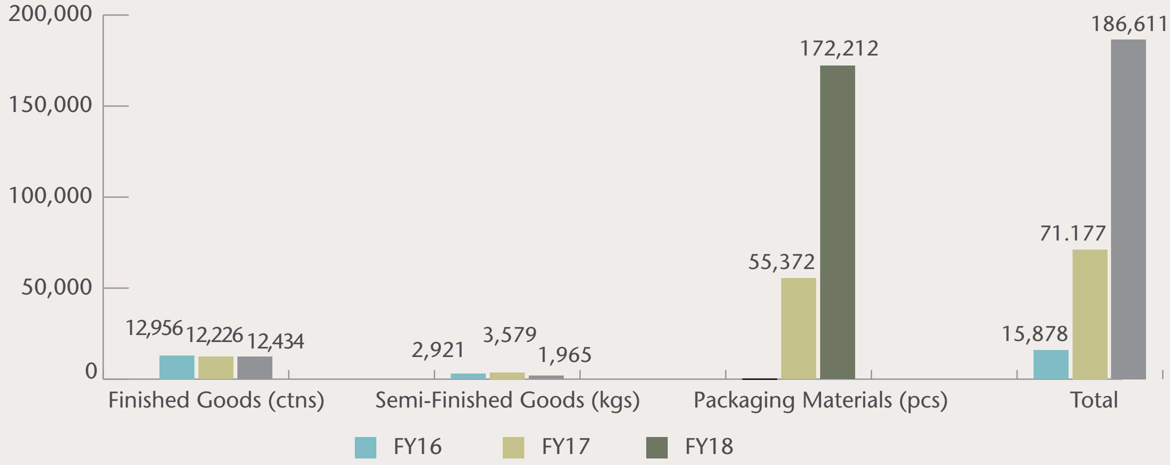
Reduce – We focus on reducing materials and paper consumption. We constantly improve production processes more efficiently and better designs that reduce waste.

Reuse – We set to reuse and recycle materials whenever possible. We also support redistribution of unsold edible surplus food to food bank.

Recycle – We invest in containers segregating types of waste which encourage our people to separate out papers, plastics, glass and cartons. We have engaged with a waste management contractor on waste collections and recycling services of all of our operations. We sent our waste such as food waste, packaging, paper, cartridges to recycle instead of landfill. The funds collected from the recycling are used for employees' welfare.

We generated two types of wastes – scheduled and non-scheduled wastes. Scheduled wastes consist of compressor oil and glycol are collected by third party contractors for disposals or treatments. Our non-scheduled wastes comprise paper, finished goods, semi-finished goods, packaging, raw materials and ink cartridges etc are sent to recycling facilities.

Non Scheduled Wastes



Overall, our non-scheduled waste – semi-finished goods have decreased to 3.6k kgs to 2.0k kgs from FY17 to FY18 while our packaging materials and finished goods have increased to 172k pcs from 55.4k pcs in FY18 compared to previous year due to obsolete packaging materials being written off in FY18.

We are committed to managing our waste from our operations to reduce our impact on both the environment and the local communities.

Office Waste

We consume significant volume of paper in the office and use paper for a variety of activities such as customer statements, billings in our operations or corporate office. We have been working to reduce our environmental impact. We use recycled paper and set double sided printing where possible. Additionally, we move towards digitalisation where some of our documents are digitalised and our people can access those documents through our shared folders in our system. We also centrally configured our printing options on all of our laptops and desktops to black and white printing.

We look for ways to reduce our office consumables wherever we can. For example, we reuse mobile and laptops that are returned by our employees, we encourage reuse of stationery (arch files, paper files etc).

Where waste reuse and recycling are not possible, we will sell it to the recycling contractor. For several years, we have sent most of our waste such as paper waste, packaging, printer cartridges, cartons, glass etc to be recycled.

BOARD OF DIRECTORS

Seated from left to right

GAN THIAM CHAI
Executive Chairman

NARESHCHANDRA GORDHANDAS NAGRECHA
Non-Independent Non-Executive Director

GAN THIAM HOCK
Non-Independent Executive Director

LIM PENG @ LIM PANG TUN
Independent Non-Executive Director

Standing from left to right

KWAN SOK KAY
Non-Independent Executive Director

TIMOTHY TAN HENG HAN
Managing Director

LIM HUN SOON @ DAVID LIM
Independent Non-Executive Director

ABDUL RAZAK BIN SHAKOR
Non-Independent Non-Executive Director

DR. NIK ISMAIL BIN NIK DAUD
Senior Independent Non-Executive Director

EUGENE HON KAH WENG
Independent Non-Executive Director

BOARD OF DIRECTORS' PROFILES

GAN THIAM CHAI

MALAYSIAN, MALE, AGED 65

EXECUTIVE CHAIRMAN

Gan Thiam Chai ("Mr. T.C. Gan") was appointed to the Board on 1 June 2005 and has been the Executive Chairman since 1 March 2010.

Mr. T.C. Gan has accumulated more than 30 years of experience in the food processing industry. After leaving school in 1971, he joined Behn Meyer Industries Sdn. Bhd. as a Technical Assistant. He left the company in 1976 and set up Kian Guan Trading Co. in 1977. In 1984, he founded Kawan Food Manufacturing Sdn. Bhd. ("KFM"). The growth of KFM from small business to an award-winning enterprise is attributable to his efforts.

His business acumen and sound technical knowledge in the food industry is an invaluable asset to the Group. He is responsible for the overall business planning and development, product research and development, transformation and modernisation of food production process through automation, formulation of companies' strategic plans and policies.

Mr. T.C. Gan is the husband of Mdm. Kwan Sok Kay, brother of Mr. Gan Thiam Hock and father-in-law to Mr. Timothy Tan Heng Han. He has no conflict of interest with the Company except that he is a substantial shareholder of the Company. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

TIMOTHY TAN HENG HAN

MALAYSIAN, MALE, AGED 37

MANAGING DIRECTOR

Timothy Tan Heng Han ("Mr. Timothy Tan") was appointed to the Board on 25 November 2013 and redesignated as Managing Director of Kawan Food Berhad on 21 April 2015.

Mr. Timothy Tan graduated with Bachelor of Business in Marketing (Sub majors in Business Information Systems and Advanced Advertising) from the University of Technology Sydney, Australia. He also obtained Diploma in Marketing Communications from International Advertising Association and Diploma in Marketing Research from Marketing Research Society of Australia.

He began his career in year 2003 as a Worksite Marketing Executive in Allianz Life Insurance (M) Berhad. In year 2004, he joined KFM as Marketing Executive and was promoted to the Deputy General Manager (Exports) for the Group. In addition, he also oversees the launch of new products in existing and new markets for brands owned by the Group in overseas markets.

Mr. Timothy Tan is the son-in-law of Mr. T.C. Gan and Mdm. Kwan Sok Kay. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

GAN THIAM HOCK

MALAYSIAN, MALE, AGED 56

NON-INDEPENDENT EXECUTIVE DIRECTOR

Gan Thiam Hock ("Mr. T.H. Gan") was appointed to the Board on 1 June 2005. He was the Chairman of the Remuneration Committee of the Company till 10 April 2018.

Mr. T.H. Gan has over 30 years of experience in the marketing of pastry and frozen food products. After leaving school in 1981, he joined Mr. T. C. Gan at Kian Guan Trading Co. He is also the co-founder of KFM and holding the position of the Sales Director, a position he continues to hold until today.

Mr. T.H. Gan is responsible for the overall expansion and development of the marketing networks of the Group, as well as implementation of sales, distributions and promotional activities for the domestic market.

Mr. T.H. Gan is the brother of Mr. T.C. Gan and brother-in-law to Mdm. Kwan Sok Kay. He has no conflict of interests with the Company except that he is a substantial shareholder of the Company. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

KWAN SOK KAY

MALAYSIAN, FEMALE, AGED 64

NON-INDEPENDENT EXECUTIVE DIRECTOR

Kwan Sok Kay ("Mdm. Kwan") was appointed to the Board on 1 June 2005.

After leaving school in 1973, she was involved in book-keeping work in several companies until she joined Unic Plastics Industries Sdn. Bhd., a plastic products manufacturing company, as an Account cum Administrative Assistant in 1975. Subsequently, she joined KFM in 1984 as a Director, before holding the post of Finance Director in 1986.

Mdm. Kwan is responsible for the financial management and administrative functions of the Group, as well as the implementation of accounting and operational procedures and human resource policies.

Mdm. Kwan is the wife of Mr. T.C. Gan, sister-in-law of Mr. T.H. Gan and mother-in-law of Mr. Timothy Tan Heng Han. She has no conflict of interests with the Company. She has never been convicted for any offence within the past five (5) years. She attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

LIM PENG @ LIM PANG TUN

MALAYSIAN, MALE, AGED 64

INDEPENDENT NON-EXECUTIVE DIRECTOR

Lim Peng @ Lim Pang Tun ("Mr. Lim") was appointed to the Board on 16 May 2005. He is also the Chairman of the Nominating Committee, a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Lim holds a Master in Business Administration degree from the Louisiana State University, United States of America. He is a Chartered Accountant of the Malaysian Institute of Accountants and an Associate Member of CPA Australia and the Chartered Institute of Management Accountants, UK.

He has over 30 years experience in executive management, corporate finance and accounting; and has worked in the investment banking, healthcare, cruises, pharmaceuticals, chemicals and heavy equipments industry. He has held positions as Executive Director of Pantai Holdings Berhad, Executive Director of Paos Holdings Berhad and Vice-President, Finance and Treasury with Star Cruises Ltd. He was also previously the Vice-President, Business Development of Hwang-DBS Investment Bank Berhad and General Manager, Corporate Finance of Affin Investment Bank Berhad. He is currently involved in private investment ventures.

Mr. Lim does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

DR. NIK ISMAIL BIN NIK DAUD

MALAYSIAN, MALE, AGED 68

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Dr. Nik Ismail bin Nik Daud ("Dr. Nik") was appointed to the Board on 2 January 2017. He was appointed by the Board as Senior Independent Non-Executive Director on 8 April 2019. He is also the Chairman of the Remuneration Committee, a member of the Audit Committee and Nominating Committee of the Company.

Dr. Nik is a Fellow, International Academy of Food Science and Technology. He graduated with a Bachelor of Agricultural Science (Hons) from University of Malaya in 1975. Subsequently, he obtained a Postgraduate Diploma in Food Science from the Catholic University of Leuven, Belgium in 1976, a Master of Science in Food Science & Microbiology from University of Strathclyde, Scotland in 1978, a PhD in Food Science from University of London, United Kingdom in 1983 and a Master of Business Administration from Universiti Kebangsaan Malaysia ("UKM") in 1987.

Dr. Nik began his career since 1978 as a lecturer on various subjects such as food quality and safety systems, food microbiology, food analysis, new product development, food legislation and operations management, management of biotechnology and entrepreneurship in science and technology for undergraduate and graduate levels in UKM. His industry experience includes holding senior positions in private companies involved in food-related businesses. He has also conducted workshops for many food companies and government agencies on food quality, safety systems, food legislations and on intellectual property management in the food industry since 1983. He was appointed as Managing Director of UKM holdings Sdn. Bhd. from 2006 till 2014.

Dr. Nik was a member of various national committees including the National HACCP Committee, National HACCP Audit Committee, Technical Advisory Committee on Malaysian Food Regulations, 1985, Technical Committee of the National Food Safety Council, Malaysia, Member of National Food Safety and Nutrition Council, Malaysia, National Codex Alimentarius Committee, Malaysian Standards on Coffee, Beverages, Flour, Starches and Food Safety and a Member of the Industrial Standard of Food and Food Products. In addition, he was the president of the Malaysian Institute of Food Technology for 18 years until 2014 and was also past President of Federation of Institute Food Science and Technology, Association of South East Asian Nations (FIFSTA). He was appointed as the Independent Non-Executive Director of Bioalpha Holdings Berhad on 30 June 2011.

Dr. Nik does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

LIM HUN SOON @ DAVID LIM

MALAYSIAN, MALE, AGED 63

INDEPENDENT NON-EXECUTIVE DIRECTOR

Lim Hun Soon @ David Lim ("Mr. Lim") was appointed to the Board on 21 October 2015. He is also the Chairman of the Audit Committee and a member of Remuneration Committee of the Company.

Mr. Lim graduated with a Bachelor of Arts in Economics from the University of Leeds in 1978 and subsequently joined Peat Marwick Mitchell (now known as KPMG) in the United Kingdom ("UK") in 1978. He qualified as a member of the Institute of Taxation, United Kingdom in 1981 and as a Chartered Accountant in England and Wales in 1982. He returned to Malaysia in 1982 to continue his service with KPMG, and was admitted as a member of the Malaysian Institute of Accountants ("MIA") and the Malaysian Association of Certified Public Accountants (now known as the Malaysian Institute of Certified Public Accountants ("MICPA")) in 1982 and 1984 respectively.

Mr. Lim has had an extensive career serving as an Auditor at KPMG, spanning 33 years. During his career with KPMG, he was admitted as Partner of the firm in 1990 and served in the Management Committee of the firm from 1997 to 2001 and in KPMG's Partnership Supervisory Council from 2002 to 2010. He was also the Asian Anchor Practice representative for Marketing from 2000 to 2001, in which role he gained extensive and insightful knowledge from KPMG Global counterparts worldwide.

In 2006, he was tasked to start up the Audit Committee Institute, Malaysia ("ACI Malaysia"), which is a virtual worldwide initiative sponsored by KPMG to assist independent directors in enhancing their awareness and ability to implement effective board processes.

Mr. Lim actively served as an examiner for Company Law examinations conducted by the MICPA for over a period of ten (10) years. He was the Chairman of the MICPA Code of Ethics Committee and a member of the MIA Code of Ethics Committee, both from 2002 to 2004. He retired from KPMG in 2011. In 2013, he was appointed as Council member of The Institute of Chartered Accountants in England & Wales ("ICAEW"). This was the first time that ICAEW, in its illustrious history had appointed a Malaysian on Council. The position was for a term of two (2) years till 2015; this was subsequently renewed for a second term of two (2) years to 2017. Recently, his term as Council member was renewed for a third term of two (2) years till 2019.

Mr. Lim holds directorship in public listed companies, he is an Independent Non-Executive Director of Manulife Holdings Berhad, Sasbadi Holdings Berhad, Ranhill Holdings Berhad and Press Metal Aluminium Holdings Berhad. He also holds directorship in Manulife Insurance Berhad, Fairview Schools Berhad, Affin Investment Berhad (formerly known as Affin Investment Bank Berhad), Affin Hwang Investment Bank Berhad and Rockwills Trustee Bhd. He had recently retired from the Board of Ann Joo Resources Berhad.

Mr. Lim does not have any family relationship with any Director and/or major shareholder of the Company. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

NARESHCHANDRA GORDHANDAS NAGRECHA

BRITISH, MALE, AGED 68

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Nareshchandra Gordhandas Nagrecha ("Mr. Nagrecha") was appointed to the Board on 31 December 2009. He was a member of the Nominating Committee of the Company till 22 November 2018.

Mr. Nagrecha graduated with a degree in Chemistry-Microbiology from Bombay University and completed Master of Science (M.Sc) degree in Food Science at the Reading University, UK. He subsequently obtained Post-graduate Diploma in Management Studies.

Starting his career in Research and Development in Food and Drink Industry, in 1982, he jointly founded Rubicon Drinks Limited, a company incorporated in England and Wales, to produce and distribute Exotic Juice Drinks for the ethnic South Asian community. The company grew rapidly and is now considered to be part of the mainstream drinks chain in the UK. In August 2008, the company was sold to AG Barr plc, the third largest drinks manufacturer in the UK.

The Nagrecha Group own Rubicon Food Products Limited ("RFPL"), a company incorporated in Canada. RFPL, which manufactures and distributes the Rubicon range of drinks as well as imports and distributes Shana range of frozen vegetables and flat bread for the South Asian market in North America.

Mr. Nagrecha is also the beneficial owner of Shana Foods Limited, a company incorporated in England and Wales, which imports and distributes Shana range of frozen vegetables and flat bread for the South Asian market in Europe.

In 2010, Mr. Nagrecha ventured into hospitality industry and set up the "Sandalwood Hotel & Retreat" in Goa, India. Since, its opening, it has been awarded the "Certificate of Excellence" for five (5) consecutive years by Tripadvisor and is now in the Hall of Fame.

Mr. Nagrecha is now settled in Malaysia and is presently strategically managing all Nagrecha Group businesses in the rest of the world.

Mr. Nagrecha is keenly involved in charitable work with Sanskaruti Foundation UK and Jamnaben Gordhandas Nagrecha foundation. His special interest is in educating the needy.

Mr. Nagrecha does not have any family relationship with any Director and/or major shareholder of the Company except that he is deemed interested pursuant to Section 8 of the Companies Act, 2016 by virtue of his substantial shareholding in Narvee Foundation. He has never been convicted for any offence within the past five (5) years. He attended four (4) out of the five (5) Board Meetings held during the financial year ended 31 December 2018.

ABDUL RAZAK BIN SHAKOR

MALAYSIAN, MALE, AGED 61

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR

Abdul Razak bin Shakor ("Encik Abdul Razak") was appointed to the Board on 16 August 2016 and was appointed as member of the Nominating Committee on 22 November 2018.

Encik Abdul Razak attended Institute Technology MARA, Malaysia, majoring in Insurance. He has obtained Certificate from Lloyds of London, Chartered Insurance Institute (Cert. CII), UK and Institute of Risk Management (Cert IRM), UK and is a Fellow of the Malaysian Insurance Institute (FMII). He has more than 38 years extensive working experience in risk management, insurance and financial services sector in Malaysia and internationally. He has served in key regional management positions in South-East Asia and the Middle-East and North Africa for multinational/international organisations. Currently, Razak is the Founder and Managing Director of Esperanza Management Advisors Sdn. Bhd., a Specialist Risk Management consulting services firm and Chairman of Alloy Insurance Brokers Sdn. Bhd., a Bank Negara licensed insurance, reinsurance and takaful insurance broking company. He is also a member of the Board Risk Committee of PERKESO.

Encik Abdul Razak does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past five (5) years. He attended all the five (5) Board Meetings held during the financial year ended 31 December 2018.

EUGENE HON KAH WENG

MALAYSIAN, MALE, AGED 60

INDEPENDENT NON-EXECUTIVE DIRECTOR

Eugene Hon Kah Weng ("Mr. Eugene") was appointed to the Board on 22 November 2018. He is also a member of the Audit Committee, Nominating Committee and Remuneration Committee of the Company.

Mr. Eugene started his training in accountancy in 1979 with a reputable accounting firm and qualified as a Certified Public Accountant in 1985 with the Malaysian Association of Certified Public Accountants (now renamed as the Malaysian Institute of Certified Public Accountants). He was also admitted into the Malaysian Institute of Accountants as a Chartered Accountant.

Mr. Eugene left the accountancy profession in 1991 and assumed a senior position with a large financial services group covering businesses of merchant banking, finance, insurance, leasing, money broking and consumer financing. In 2011, he joined the Central Bank as Finance Director. While with these organisations, he gained extensive experience in management, finance, risk management and corporate governance.

Over the years, Mr. Eugene has held key management positions, was a key member of various group committees and also served as a nominee director on the boards of various group companies of the financial services group.

Mr. Eugene does not have any family relationship with any Director and/or major shareholder of the Company and has no conflict of interest with the Company. He has never been convicted for any offence within the past five (5) years. He attended one (1) out of the one (1) Board Meeting held during the financial year ended 31 December 2018 since his appointment.

PROFILE OF KEY MANAGEMENT

The Management of the Group is headed by the Group Managing Director, Mr. Timothy Tan Heng Han and is assisted by the Executive Directors, Mr. Gan Thiam Hock and Mdm. Kwan Sok Kay and the following key senior management:

TEOH SOON TEK

Financial Controller

Nationality: Malaysian
Age: 43
Gender: Male

Date of Appointment to current position: March 2013

Qualifications:

- Bachelor of Accounting, RMIT University
- Member of Malaysian Institute of Accountants
- Member of CPA Australia

Working experience:

- More than 18 years of experience in the areas of auditing, accounting, taxation, GST, corporate affairs and finance, in international accounting firms and public listed companies prior to joining the Group.
- He joined Kawan in March 2006 as a Group Accountant and was appointed as the Financial Controller in 2013.

YAN WEI DONG

General Manager of Kawan Food (Nantong) Co., Ltd

Nationality: Chinese
Age: 51
Gender: Male

Date of Appointment to current position: March 2012

Qualifications:

- Bachelor of Machinery, Shanghai University
- Executive Master of Business Administration, Dumex Management Institute

Working experience:

- More than 20 years of experience in the areas of marketing, sales and business development in the Fast-Moving Consumer Goods (FMGC) multi-national companies prior to joining the Group.
- He joined Kawan in March 2012 as General Manager of Kawan Food Nantong.

ZHAO JIAN JIAN

Operational General Manager of Kawan Food (Nantong) Co., Ltd

Nationality: Chinese
Age: 54
Gender: Male

Date of Appointment to current position: August 2009

Qualifications:

- Food Engineering specialty, Nanjing Agricultural University

Working Experience:

- More than 30 years experiences in the areas of production, quality control and operation in large food manufacturing and foreign food companies prior to joining the Group.
- He joined in August 2009 as Plant Manager and was promoted to Operational General Manager in March 2018.

LOW CHIEW LAN

HR & Operations Manager

Nationality: Malaysian

Age: 59

Gender: Female

Date of Appointment to current position: March 2013

Qualifications:

- MCE Certificate
- LCCI Intermediate (Accounts)

Working Experience:

- More than 35 years experiences in the areas of accounting, human resource management and administration in public listed FMCG companies prior to joining the Group.
- She joined in February 2003 as HR Officer and was promoted to HR & Operations Manager in March 2010.

KHOO BOO SENG, RAYMOND

Head of Export

Nationality: Malaysian

Age: 49

Gender: Male

Date of Appointment to current position: March 2017

Qualifications:

- SPM

Working Experience:

- More than 20 years experiences in the areas of domestic and export sales of FMCG products in various companies that specialise in distributorship.
- He joined in May 2010 as Business Manager and was promoted to Head of Export in 2017.

LIM HENG HEE, ALBERT

National Sales Manager

Nationality: Malaysian

Age: 58

Gender: Male

Date of Appointment to current position: January 2012

Qualifications:

- Diploma in Diesel Engineering
- Diploma in Marketing
- LCCI Higher (Commercial Law)

Working Experience:

- More than 30 years of experience in the areas of sales and marketing of FMCG products, in trading and manufacturing companies.
- He was appointed as Sales Manager in April 2006 and subsequently promoted to National Sales Manager in 2012.

Additional notes on the above key senior management

None of the above key senior management has any:

(i) directorship in public companies and listed issuers;
(ii) family relationship with any director and/or major shareholder of the Company;
(iii) conflict of interests with the Company; and
(iv) conviction for offences within the past five (5) years, and public sanction or penalty imposed by the relevant regulatory bodies on him or her during the financial year ended 31 December 2018, which require disclosure pursuant to paragraph 4A(g) of Part A of Appendix 9C of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("the Board") of Kawan Food Berhad ("Kawan" or "the Company") recognises the importance of adopting corporate governance within Kawan and its subsidiaries ("the Group") and is committed to ensure the sustainability of the Company's businesses and operations through the implementation and observation of the Principles and Recommendations as promulgated by the Malaysian Code on Corporate Governance ("MCCG").

The Corporate Governance Overview Statement of the Company is guided by Practice Note 9 of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities") and the Corporate Governance Guide (3rd Edition) issued by Bursa Securities. The Corporate Governance Overview Statement is to be read together with the Corporate Governance Report prepared based on the prescribed format as outlined in paragraph 15.25 (2) of the Listing Requirements so as to map the application of the Company's corporate governance practices against the MCCG. The Corporate Governance Report is available on the Company's website, www.kawanfood.com as well as via an announcement on the website of Bursa Securities.

Compliance with the MCCG

As a Main Market listed company, the Company is pleased to present this statement in accordance with the MCCG which sets out the standards of good practice in relation to:

a) **Principle A:** Board Leadership and Effectiveness;
b) **Principle B:** Effective Audit and Risk Management; and
c) **Principle C:** Integrity in Corporate Reporting and Meaningful Relationship with stakeholders.

This Statement outlines the principles and recommendations which the Company has adopted and applied, and where there are gaps in the Company's observation of any of the recommendations, they are disclosed herein with explanations.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

Board Responsibilities

The Board plays a pivotal role in the stewardship of the Group and ultimately enhancing long term shareholders value. The key responsibilities of the Board include:

- Reviewing, challenging and approving management's proposals for the Company and to monitor the performance and implementation of the strategic plans by the management;
- Overseeing the conduct of the Group's business to evaluate whether the businesses are being properly managed;
- Set the tone from the top;
- Receiving updates on key strategic initiatives, significant operational issues and the Company's performance through periodic meetings;
- Identifying principal business risks affecting the Group through implementation of appropriate system to manage these risks;
- Ensure that there are plans in place for orderly succession of senior management;
- Reviewing the adequacy and the integrity of our Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. Details pertaining to the Company's internal control system and its effectiveness are available in the Statement on Risk Management and Internal Control of this Annual Report;
- Receiving audit report by the Internal Auditors which had been reviewed by the Audit Committee ("AC") and conducts annual assessment on the adequacy of the Department's scope of work and resources;
- Reviewing the summary of internal audit's findings together with the Management's responses and the agreed remedial actions by the Internal Auditors;
- Assessing senior management's skills and experience, and ensure there are measures in place for the orderly succession of Board and senior management;
- Establishing, reviewing the policies and procedures on whistleblowing;
- Monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- Monitoring the Company's financial statements are true and fair and conform with the accounting standards; and
- Promoting the Company to adhere to high standards of ethics and corporate behaviour.

During the financial year, key activities undertaken by the Board include:

- Received regular reports to the Board and updates from the Managing Director ("MD") on the development of the Group's business and operations, key initiatives, challenges, financial and non-financial performance and other key matters;
- Approved proposed establishment of an Employees' Share Option Scheme of the Company;
- Approved Company's full year and interim results;
- Approved the group budget for the 2019-2020;
- Approved proposed interim and final dividend;
- Reviewed of material financial and non-financial risk facing the group's businesses;
- Received regular updates on corporate governance and regulatory matters;
- Received reports from the board committees chair;
- Received regular management reports;
- Appointment of Eugene Hon Kah Weng as Independent Non-Executive Director.

Chairman and Managing Director ("MD")

There is a clear division of responsibilities between the Chairman and MD to ensure that there is a balance of power and authority, as roles of Chairman and MD are distinct and separate. The division in the roles of the chairman and MD are clearly established in the Board Charter.

The Chairman of Kawan is a Non-Independent Executive Chairman. The Chairman, Mr. Gan Thiam Chai is responsible for instilling leaderships, effectiveness, conduct and governance of the Board. Prior to the commencement of a Board meeting, the Chairman sets the Board agenda and ensures that the Board members receive accurate and complete information in a timely manner. The Chairman also promotes an open culture for debates and encourages active participation among the Directors. During the meetings, the Chairman shares his views on key matters so that all the Directors contribute to the debates while ensuring no director dominates the discussions. The Chairman maintains regular contacts with all Directors. Where appropriate, the Chairman invites director(s) to attend meetings with the management on key matters of business. The Chairman also communicates on behalf of the Company to shareholders and other stakeholders.

The MD, Mr. Timothy Tan Heng Han, is a Non-Independent Executive Director. He is entrusted by the Board on the day-to-day operation of the business and implementation of the Group's policies and strategic plans established by the Board within a set of authorities delegated by the Board. The MD also leads the management to ensure effective working relationship with the Chairman and the Board by meeting or communicating with the Chairman/Director(s) on regular basis to review key developments and issues.

Company Secretary

Both Company Secretaries of Kawan have more than 20 years' experiences in practice and are qualified as company secretary under the Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA") and Licensed Company Secretary ("LS").

The Company Secretary plays an important role in advising and supporting the Board. The roles and responsibilities of the Company Secretary include the following:

- Advising the Board on its roles and responsibilities;
- Advising the Board on the governance matters and keep the Board abreast with the developments of corporate and securities law, listing rules, Company's Constitution, Board policies and procedures, and its compliance with regulatory requirements and advocate adoption of corporate governance best practices;
- Managing the provision of information within the Board;
- Facilitating induction of new directors and continuing development of directors; and
- Serving as a focal point for stakeholders' communication and corporate governance.

The Directors has direct access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that all governance matters and Board procedures are in compliance with the applicable laws and regulations. This includes updating the Board on the Main Market Listing Requirements, circulars from Bursa Malaysia Securities Berhad and other legal and regulatory developments and their impact on the Group and its business.

In 2018, the Company Secretaries assisted the Board in applying best practices and monitor the corporate governance developments to meet the stakeholder expectations. In 2018, the Company Secretaries updated the Board with the governance practices that the Company has complied and highlighted the matters to be complied in accordance with the MCCG.

The Company Secretaries organise and attend all Board and Committee meetings and ensure that meetings are properly convened, and that accurate and proper records of the proceedings and resolutions passed are properly documented and maintained accordingly.

Deliberations during the Board and Board Committees meetings were properly minuted and documented by the Company Secretaries. Upon conclusion of the meetings, minutes are circulated to all the Board members to ensure that the minutes reflect accurate records of the deliberations and decisions at the meetings.

Information and Support for Directors

The Company Secretaries manage the information flows to the Board at appropriate times in consultation with the Chairman and the MD.

All Board members are furnished 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 informed decision making and effective discharge of the Board's responsibilities.

The Board meets at least once quarterly to review and approve the quarterly results of the Group for announcement. The Board will also attend additional meetings to be convened on an ad-hoc basis as and when necessary to consider corporate proposals or business issues that require urgent decision of the Board. Senior Management and/or other relevant staffs are invited to attend the Board meetings where necessary to provide the Board with detailed explanations and clarifications on issues that are being considered during the Board meetings.

A notice of a Directors' meeting is sent in writing to every director at least seven (7) days prior to the meeting. The Board's deliberation, in terms of the pertinent issues discussed at the meetings in arriving at the decisions and conclusions thereof in discharging the Board's duties and responsibilities are properly recorded by the Company Secretaries. Board papers and agenda items are to be circulated at least five (5) business days prior to the meeting or such other shorter period deemed appropriate and/or unavoidable prior to the meeting.

The Board members have unrestricted access to the information pertaining to the Company to discharge their duties and responsibilities. The Directors may seek advice from the Management on issues pertaining to their respective jurisdictions. The Directors may also interact directly with, or request further explanation, information or updates on any aspect of the Company's operations or business concerns from the Management.

As the Group's quarterly results is one of the regular annual schedule matters which is tabled to the Board for approval at the quarterly Board Meetings, memorandum on close period for trading in the Company's securities are circulated to Directors, principal officers and employees who are deemed to be privy to any price-sensitive information in advance whenever the close period is applicable based on the targeted date of announcement of the Group's quarterly results.

The Board has access to the advice and services of the Company Secretaries, who are experienced and capable of carrying out the duties to which the post entails and may upon a written request to the Chairman to obtain independent professional advice at the Company's expense as and when necessary.

Board Charter

The Board is guided by a Board Charter approved by the Board. The Board Charter sets out the duties and responsibilities of the Board, the Board Committees, and the Management, matters reserved for the Board's decision and those which the Board may delegate to the Board Committees, MD and Management. The Board Charter further defines the respective roles of the Chairman of the Board, the MD, the Senior Independent Non-Executive Directors and the Directors. The Board Charter is available for reference at the Company's website at www.kawanfood.com.

The Board Charter has been established to promote high standards of corporate governance and to provide guidance and clarity for Directors and Management with regard to the role of the Board and its committees. The Board Charter does not overrule or pre-empt the statutory requirements and other relevant statutes.

The Board will review this Charter from time to time and make necessary amendments as and when necessary to ensure that it is in line with the regulatory requirements and best practices.

In 2018, the Board reviewed the Board Charter to reflect requirements of the CG Code.

Code of Conduct and Ethics ("CoCE")

The Board encourages employees across the Company to adhere to and maintain the highest standard of ethical behavior. Therefore, the Company has formalised and adopted a CoCE which sets out certain values, principles and standards of good conduct to which Directors and employees are expected to adhere.

The CoCE is established to promote the corporate culture which engenders ethical conduct that permeates throughout the Company and its subsidiaries. The CoCE covers conflict of interests, confidentiality, fair practices, acceptance of gifts and appropriate use of the Company's property which reflects the Company's commitment to integrity, transparency, accountability and self-regulation.

The detailed CoCE can be viewed at the Company's website. The CoCE will be reviewed from time to time for changes and new developments in the external and internal environment.

In April 2018, the Board has reviewed and approve the amendments to its CoCE to cover abuse of power, corruption, money laundering and insider trading. The CoCE clearly states that the employees are strictly prohibited from obtaining, authorising, offering or giving anything to any individual with the aim of influencing business in connection with Kawan's business activities.

Whistle Blowing Policy

As part of the Company's continuous effort to ensure that good corporate governance practices are being adopted, the Company has established a Whistle Blowing Policy to provide a clear line of communication and reporting of concerns for employees at all levels, and provides alternative lines of communication depending on the person(s) who is/are the subject of such concerns.

The Company's Whistle Blowing Policy fosters an environment in which integrity and ethical behaviour are maintained through protocols which allow for the exposure of any violations or improper conduct or wrongdoing within the Company.

Reporting individual shall report directly to the Head of Department orally or in writing such as using email or existing suggestion box. However, if reporting individual is uncomfortable speaking with the Head of Department, he/she encourages to raise the matter to anyone in management the reporting individual is comfortable in approaching. If the channels have been followed and the reporting individual still has concerns, he/she shall report directly to AC Chairman on any allegations of suspected improper activities – whether received as a protected disclosure, including those relating to financial reporting, unethical or illegal conduct and any employment-related concerns.

The AC is committed to investigate and address all cases of reported misconduct and determine the channel for investigation and follow-up action.

The detailed information of the policy can be found in the Company's website at www.kawanfood.com.

Sustainability

The Board recognises the importance of sustainability and its increasing significance in the business. The Board is committed to understanding and implementing sustainable practices and to exploring the benefits to the business whilst attempting to achieve the right balance between the needs of the wider community, the requirements of shareholders and stakeholders and economic success.

The Company's new mission is to create values in a sustainable way to our stakeholders and contribute to economic, social and environmental developments. It is important to embed sustainability into the Company's culture. Hence, the Company will formalise a Sustainability Policy which aims to integrate the principles of sustainability into the Company's strategies, policies and procedures and ensure that the Board and senior management are involved in implementation of this policy, review the sustainability performance and create a culture of sustainability within the Company, and the community, with emphasis on integrating the environmental, social and governance considerations into decision making process and the delivery of outcomes.

Please refer to the Sustainability Statement for further information.

Board Committee

The Board comprises members from various fields with skills, experience and qualifications appropriate to the Company, recognises the clear distinction of the roles and responsibilities between the Board and the Management. The Board is responsible for the overall strategic direction and leadership of the Group, the adequacy and effectiveness of the Group's risk management and internal control system, and compliance with the relevant laws and regulations. The Management, on the other hand, is responsible for assisting the Board in implementing the policies and procedures adopted by the Board to achieve the Group's objective and in running the Group's day-to-day business operation.

To assist in the discharge of its responsibilities, the Board has established the following Board Committees to perform certain of its functions and to provide recommendations and advice:

- Nominating Committee ("NC");
- Remuneration Committee ("RC"); and
- Audit Committee ("AC").

Each Committee operates its functions within their approved terms of reference by the Board which are reviewed by the Board from time to time and the Board appoints the Chairman and members of each Committee.

The respective Committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board. Significant matters which are specially reserved for the Board's approvals are clearly defined by the Board in the Board Charter which include the following:

- Conflict of interest issues relating to a substantial shareholder or a director including approving related party transactions;
- Material acquisitions and disposition of assets not in the ordinary course of business including significant capital expenditures;
- Strategic investments, mergers and acquisitions and corporate exercises;
- Corporate strategic plans;
- Budgets;

- Quarterly results and audited financial statements for announcements;
- Monitoring of operating performance;
- Review of the Financial Authority Approving Limits; and
- Risk management policies.

The Board reserves its rights to amend the matters reserved for its decisions.

The Board may form other Committees delegated with specific authorities to act on their behalf. These Committees operate under approved terms of reference or guidelines, whenever required.

All Board Committees have written terms of reference which is approved by the Board. The respective Chairman of the NC, RC and AC report to the Board accordingly subsequent to the respective Committee meetings.

Authority for the operational management of the Group's business has been delegated to the MD. The MD further delegates its day to day operations to the Management. The Management of each department within the sets of authorities reports directly to the Managing Director.

Board Composition

During the financial year under review, the Board comprises the following directors:

Non-Independent Executive Chairman
Gan Thiam Chai

Non-Independent Executive Directors
Timothy Tan Heng Han
Gan Thiam Hock
Kwan Sok Kay

Senior Independent Non-Executive Directors
Chen Seng Chong (Retired on 31 May 2018)

Non-Independent Non-Executive Directors
Nareshchandra Gordhandas Nagrecha
Abdul Razak bin Shakor

Independent Non-Executive Directors
Lim Hun Soon @ David Lim
Lim Peng @ Lim Pang Tun
Dr. Nik Ismail bin Nik Daud
Eugene Hon Kah Weng (Appointed on 22 November 2018)

The Board has ten (10) members, comprising an Executive Chairman, three (3) Non-Independent Executive Directors, two (2) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors. The profile of the Directors is set out on pages 42 to 51 of this Annual Report.

The present composition of the Board has complied with the Listing Requirements of Bursa Securities requires that at least two Directors or one-third (1/3) of the Board of Directors of the Company, whichever is higher, are independent.

The MCCG recommends that at least half of the Board comprises Independent Directors. The Board has six (6) Non-Executive Directors, of whom four (4) are Independent Non-Executive Directors. With the current composition, the Board believes that its members have the necessary knowledge, experience, requisite range of skills and competence to enable them to discharge their duties and responsibilities effectively, objectively and independently as follows:

i) The Board believes that the current composition with four (4) independent directors is sufficient as they make contributions to Board's deliberations objectively and independently.

ii) There are robust deliberations during Board and Committee meetings as they do not shy away from asking hard questions or request more information where necessary.

iii) All directors on the Board have gained extensive experience with their many years of experience on boards of other companies and/or also as professionals in their respective fields of expertise.

The directors also bring external perspectives to the Board's deliberation through their diverse backgrounds and experiences, enabling them to ensure necessary checks and balances, contributing to Board decision making.

The MCCG recommends that if the Board intends to retain an Independent Director for more than nine (9) years, the Board must justify and seek shareholders' approval. If the Board continues to retain the Independent Director after the 12th year, the Board should also seek annual shareholders' approval.

The Board is satisfied that they are independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement, objectivity or the ability to act in the best interest of the Company.

Mr. Lim Peng @ Lim Pang Tun has expressed his intention not to seek re-appointment at the forthcoming AGM of the Company given he has served more than 12 years as an Independent Non-Executive Director of the Company.

Commitment

The Board held five (5) meetings during the financial year. The attendance of the directors at board meetings is shown in the table below:

Name of Directors	No. of Board Meetings Attended
Gan Thiam Chai Non-Independent Executive Chairman	5/5
Timothy Tan Heng Han Managing Director	5/5
Gan Thiam Hock Non-Independent Executive Director	5/5
Kwan Sok Kay Non-Independent Executive Director	5/5
Nareshchandra Gordhandas Nagrecha Non-Independent Non-Executive Director	4/5
Abdul Razak bin Shakor Non-Independent Non-Executive Director	5/5
Lim Hun Soon @ David Lim Independent Non-Executive Director	5/5
Dr. Nik Ismail bin Nik Daud Independent Non-Executive Director	5/5
Lim Peng @ Lim Pang Tun Independent Non-Executive Director	5/5
Eugene Hon Kah Weng* Independent Non-Executive Director	1/1
Chen Seng Chong** Senior Independent Non-Executive Director	3/3

* Appointed with effect from 22 November 2018.
** Retired on 31 May 2018

The Directors are expected to devote sufficient time and effort to carry out their responsibilities. Directors shall notify the Chairman before accepting any new directorships including providing an indication of time that will be spent on the new appointment.

Save for Mr. Lim Hun Soon @ David Lim and Dr. Nik Ismail bin Nik Daud, the Directors do not have directorship in any other listed companies. Mr. Lim Hun Soon @ David Lim and Dr. Nik Ismail bin Nik Daud have complied with the Listing Requirements of Bursa Securities that they do not hold more than five (5) directorships in listed companies.

The Board is satisfied with the level of time commitment given by the Directors towards fulfilling the roles and responsibilities which is evidenced by the satisfactory attendance record of the Directors at Board meetings in the financial year 2018.

Board Training and Development

The Board, via the NC, assesses the training requirements of each of its Directors on an ongoing basis, by determining areas that would best strengthen their contributions to the Board.

All the Directors of the Company have attended the Mandatory Accreditation Programme ("MAP"). New Directors will be briefed on the Company's history, operations and financial control system and plant visit to enable them to have in-depth understanding of the Company's operations. The Senior Management had also briefed the Directors on general economic, industry and technical developments from time to time. The newly appointed director, Mr. Eugene has attended the MAP training in Jan 2019.

Directors are encouraged to attend continuous education programmes and seminars to keep abreast of relevant changes in laws and regulations and the development in the industry. During the financial year ended 31 December 2018, the Directors attended the following training programmes and seminars:

Directors	Courses/Seminar/Conference
Gan Thiam Chai	• Bursa Malaysia Sustainability Reporting – Practitioner Programme
Timothy Tan Heng Han	• Bursa Breakfast Session – Malaysian Code of Corporate Governance • World Halal Conference (MIHAS) – The Brand Talk • Enlightened Business Vision • Lean Production System: Applications and Sharing of Experiences • Bursa Malaysia Sustainability Reporting – Practitioner Programme • Global Leadership Summit • Internet Alliance – Malaysia Internet Business Summit
Gan Thiam Hock	• Bursa Malaysia Sustainability Reporting – Practitioner Programme
Kwan Sok Kay	• Bursa Malaysia Sustainability Reporting – Practitioner Programme
Lim Peng @ Lim Pang Tun	• Corporate Governance Briefing Sessions – MSSG and CG • Bursa Malaysia Sustainability Reporting – Practitioner Programme
Dr. Nik Ismail bin Nik Daud	• Propak Food Technology Seminar, Yangoon Myanmar • Malaysia–Taiwan Industrial Summit, Kuala Lumpur • 19th World Congress of Food Science and Technology, Mumbai India
Lim Hun Soon @ David Lim	• FIDE Forum Dialogue: Navigating the VUCA World (1st Distinguished Board Leadership Series) • FIDE: Managing Cyber Risks in Financial Institutions • Affin Bank Group Board of Directors and Management Training: Risk, Challenges & Vulnerabilities Towards Regulatory Compliance • Affin Hwang Capital Conference Series 2018: Rebuilding a New Malaysia • Affin Hwang Investment Bank Bhd: Anti-Money Laundering (AMLA) Training • FIDE Forum: IBM Think Malaysia 16 August 2018 • FIDE: Blockchain in Financial Services Industry by IBM • Governance Risk and Control – Embracing the Future • MASB: IFRS Regional Workshop: IFRS 17 Insurance Contract • 5th BNM-FIDE Forum Annual Dialogue: Up Close with the Deputy Governor of BNM • ICLIF: Understanding Liquidity Risk Management in Banking • MIA-ICAEW Complimentary Talk: Artificial Intelligence and the Future of Accountancy • Beyond Compliance: Achieving Cyber Resiliency (Moving from Compliance Focused to Robust Readiness) • Common Reporting Standard (CRS) Training for Directors • Focus Group Session: Discussion in Preparation for Dialogue with BNM's Senior Management
Nareshchandra Gordhandas Nagrecha	• Busatra – Annual Report – Navigating Best Practices Compliance • Malaysian Alliance of Corporate Directors (MACD) – King on Governance Seminar • Coursera on-line: Private Equity and Venture Capital
Abdul Razak bin Shakor	• Busatra – Annual Report – Navigating Best Practices Compliance • Labuan Offshore Financial Service Authority (LOFSA) – Asian Captive Conference 2018 • Malaysian Alliance of Corporate Directors (MACD) – King on Governance Seminar • Bursa Malaysia Sustainability Reporting – Practitioner Programme

The Directors will continue to attend relevant training courses to further enhance their skills and knowledge to enable them to discharge their responsibilities more effectively.

The Company Secretaries facilitate the organisation of internal training programmes and keep Directors informed of relevant external training programmes. The Company Secretaries also circulate the relevant guidelines on statutory and regulatory requirements from time to time for the Board's reference and brief the Board quarterly on these updates at Board meetings.

Board Induction

The Company provides all Non-Executive Directors with a tailored programme of induction. All newly appointed directors will be given orientation by the senior management on the business activities of the Group.

Mr. Eugene Hon Kah Weng who joined the Board in November 2018, met with senior management and receive briefings on the Group's activities and operation as part of his induction. He also visited the head office and factory at Pulau Indah.

Nominating committee ("NC")

During financial year under review, members of the NC are as follows:

Chairman
Lim Peng @ Lim Pang Tun (Independent Non-Executive Director)

Members
Dr. Nik Ismail bin Nik Daud (Independent Non-Executive Director) (Appointed on 31 May 2018)
Abdul Razak bin Shakor (Non-Independent Non-Executive Director) (Appointed on 22 November 2018)
Nareshchandra Gordhandas Nagrecha (Non-Independent Non-Executive Director) (Resigned with effect from 22 November 2018)
Eugene Hon Kah Weng (Independent Non-Executive Director) (Appointed on 22 November 2018)
Chen Seng Chong (Senior Independent Non-Executive Director) (Retired on 31 May 2018)

The NC has four (4) members comprising three (3) Independent Non-Executive Director and a Non-Independent Non-Executive Director. The NC is chaired by the Independent Non-Executive Director.

Mr. Chen Seng Chong ceased to be a member of the NC upon his retirement as Senior Independent Non-Executive Director of the Company on 31 May 2018. Mr. Nareshchandra Gordhandas Nagrecha has resigned from the NC on 22 November 2018 and was replaced by Encik Abdul Razak bin Shakor. Mr. Eugene Hon Kah Weng was appointed as a member on 22 November 2018.

The responsibilities of the NC include, amongst others:

- Establishing and leading the process for nomination and selection of Directors;
- Identifying, assessing and make recommendation to the Board on new candidates for appointment/election and re-election/reappointment of Directors to the Board;
- Reviewing the Board structure, size and composition including required mix of skills, knowledge, experience and other qualities of the Board; and
- Considering plans for succession for appointments to the Board and Senior Management to maintain appropriate balance of skills and experience within the Company.

The responsibilities of the NC is stipulated in its Term of Reference which is available for reference on the Company website at www.kawanfood.com.

During the financial year under review, two (2) NC meetings were held and attended by all the NC members. The NC undertook the following:

- Reviewed, considered and recommended to the Board for approval, the re-election of Directors who retire by rotation pursuant to Company's Articles of Association at forthcoming 15th AGM. The Directors standing for retirement by rotation and subject to re-election at the forthcoming AGM are Mr. Gan Thiam Chai, Mr. Lim Hun Soon @ David Lim and Encik Abdul Razak bin Shakor;
- Reviewed the succession plan for Mr. Lim Peng @ Lim Pang Tun who will retire at the forthcoming AGM;
- Reviewed and recommended to the Board for approval, the appointment of Mr. Eugene Hon Kah Weng as an independent Non-Executive Director, a member of AC, NC and RC;
- Reviewed and discussed the succession planning of the Company;
- Reviewed and discussed suitable training programme for continuous development of Directors;
- Assessed the independence of Independent Directors;
- Evaluated the performance and effectiveness of the Board and each individual director;
- Reviewed and discussed the Board's composition; and
- Reviewed and assessed the AC's activities, performance and terms of office of AC and each of the AC members.

Appointments to the Board

The NC reviews the Board Composition, the RC, the AC and the NC to ensure that the Board and the individual directors have the appropriate balance of skills, experience, independence, competence and diversity to ensure the sustainability of the Group and good corporate governance practice.

The NC plays a role in the Board appointment process. The NC is responsible for assessing the nominees and making recommendations for new appointments to the Board, taking into consideration the following:

- Skills, knowledge, expertise and experience;
- Professionalism;
- Boardroom diversity (including gender diversity);
- Background, character, competence, time commitment and integrity; and
- In the case of potential candidates for the position of Independent Non-Executive Directors, the abilities of candidates to discharge such responsibilities is also evaluated.

The process of nomination and selection of director involves identification of potential candidate(s), evaluation of suitability of candidates based on the agreed upon criterias, followed by deliberation by NC and recommendation to the Board for its final approval. The NC will continuously take measures to strengthen the nomination process and, may consider utilising independent sources such as directors' registry, advertisement or recruitment agency to identify qualified candidates when necessary. Where appropriate, the NC may also engage external independent consultancy services to conduct searches for potential candidates.

Mr. Lim Peng @ Lim Pang Tun will retire at this forthcoming AGM. To facilitate the succession planning, Mr. Eugene Hon Kah Weng who had the required credentials was proposed and recommended by existing Board members to the NC for their consideration. On 19 November 2018, the NC met and based on their assessment of his skills, experience, character, integrity and competencies, the NC recommended to the Board that Mr. Eugene Hon Kah Weng be appointed as an Independent Director of the Company. On 22 November 2018, the Board approved the NC's recommendation.

Diversity Policy

The Board is committed to provide fair and equal opportunities and to nurture diversity (including gender, age and ethnicity) within the Group. The candidates for future Board appointments will be considered, taking into account, a range of diversity perspectives, including gender, cultural, competency, skills, character, time commitment, integrity and experience that the selected candidates will bring to the Board. The actual decision as to who should be nominated will be the responsibility of the full Board after considering the recommendations of the Committee. The Company Secretaries will ensure that all appointments are properly made, all the necessary information is obtained as well as all legal and regulatory obligations are met.

Diversity plays an important aspect in ensuring more efficient decision making for the Board. This is clear from the Board's diverse skill sets, backgrounds, experience as well as differences in cultural and gender. With the current composition, the Board believes that its members have the necessary knowledge, experience, requisite range of skills and competence to enable them to discharge their duties and responsibilities effectively. All Directors on the Board have gained extensive experience with their many years of experience on Boards of other companies and/or also as professionals in their respective fields of expertise. There are no changes to the Board composition during the year under review.

During the year under review, the Board has one (1) female Non-Independent Executive Director which accounts for 10% of the Board members. The NC will take steps to include, where appropriate, women candidates as a part of the Board's recruitment exercise.

Board Evaluation and Re-election of directors

The NC is responsible for carrying out assessment of the performance and effectiveness of the Board as a whole, its committee as well as each individual Director on an annual basis. The annual assessment includes specific assessment of independence of the Independent Directors.

An evaluation form to assess the performance of the Board, its committees and the individual directors is provided with the aim of improving the effectiveness of the Board and its members. The evaluation forms were drafted based on the recommended form prescribed by Bursa Securities and MCCG that relates to the Board structure, operations, roles and responsibilities, Board composition and assessment of character, experience, integrity, competence and time commitment of each Directors. The review was led by the NC Chairman.

The NC reviewed the results of the Board annual performance evaluation for the financial year and held a meeting for discussion on such matter. Following the meeting, the NC produced a report, which was discussed among the NC members and sent to Board members and discussed at the following Board meeting. The results together with the recommendations arising from the evaluations were discussed in the Board meeting.

Based on the results of the 2018 evaluation, the overall directors' view was that the Board was functioning effectively. Each of the Directors contributed and were committed to their respective roles.

The NC committee considered the re-election of the Directors prior to their recommendations to the Board for approval.

Pursuant to Section 205(3)(b) of the Companies Act 2016 and the Company's Articles of Association, one-third of the Directors for the time being shall retire from office at each Annual General Meeting ("AGM"). A retiring Director shall be eligible for re-election. The Company's Articles of Association also provide that all Directors shall retire at least once in three years.

Directors who are appointed by the Board during the financial year are subject to re-election by the shareholders at the next AGM held following their appointments.

Accordingly, Mr. Gan Thiam Chai, Mr. Lim Hun Soon @ David Lim and Encik Abdul Razak bin Shakor will retire and offer themselves for re-election at the forthcoming AGM.

All Directors have complied with the restrictions on the number of directorships in public listed companies as prescribed under the MMLR. The Directors observe the recommendation of the Code that they are required to notify the Chairman of the Board before accepting any new directorship and to indicate the time expected to be spent on the new appointment.

Remuneration Committee ("RC")

The objective of the RC is to ensure that the Group attracts and retains Directors and Senior Management of calibre to provide the necessary skills and experience as required and commensurate with the responsibilities for the effective management and operations of the Group. The responsibilities for developing and determining the remuneration packages of Executive Directors and Senior Management lie with the RC. Nevertheless, it is the ultimate responsibility of the Board to approve the remuneration of these Directors.

During the financial year under review, members of the RC are as follows:

Chairman
Dr. Nik Ismail bin Nik Daud (Independent Non-Executive Director) (Appointed on 10 April 2018)
Gan Thiam Hock (Non-Independent Executive Director) (Resigned on 10 April 2018)

Members
Lim Peng @ Lim Pang Tun (Independent Non-Executive Director)
Lim Hun Soon @ David Lim (Independent Non-Executive Director)
Eugene Hon Kah Weng (Independent Non-Executive Director) (Appointed on 22 November 2018)
Chen Seng Chong (Senior Independent Non-Executive Director) (Retired on 31 May 2018)

Mr. Chen Seng Chong ceased to be a member of the RC upon his retirement as Senior Independent Non-Executive Director of the Company on 31 May 2018.

All four (4) members of the RC are Independent Non-Executive Directors.

The duties and responsibilities of the RC are as follows:

(a) To recommend to the Board the remuneration of the Executive Directors and Non-Executive Directors in all its forms. The determination of remuneration packages of Executive Directors and Non-Executive Directors, should be a matter for the Board as a whole where the individuals concerned shall abstain from discussion of their own remuneration;
(b) To assist the Board in assessing the responsibility and commitment undertaken by the Board membership; and
(c) To assist the Board in ensuring the remuneration of the directors reflects the responsibility and commitment of the director concerned.

The details of the revised RC's Terms of Reference ("TOR") are available at the Company's website at www.kawanfood.com.

During the financial year under review, the RC convened two (2) meetings, of which all members attended.

The remuneration packages for the Executive Directors and key senior management personnel comprises basic salary, benefits in kind and bonus. The basic salaries are reviewed annually taking into account a number of factors, including individual responsibilities, performance and experience, and practice at other companies of similar size. Bonus is determined based on performance against financial performance and objectives. To ensure that the overall remuneration package is competitive, Executive Directors receive other benefits in kind in for the form of company car and car allowances.

Each of the Director receives a directors' fee and meeting allowance for each Board and general meetings that they attend. The level of Directors fee reflects their experience and level of responsibilities. Chairman of the AC, RC and NC receives higher fees in respect of his service as a chairman of respective committee. The Directors will receive an additional fee if they are members of the Board Committee. The fees for Directors are determined by the Board with approval from shareholders at AGM.

During the financial year ended 31 December 2018, the RC reviewed the remuneration package of the Executive Directors and the proposed director fees for Executive Directors and Non-Executive Directors.

The aggregate Directors' remuneration of the Directors for the year ended 31 December 2018 are as follows:

	Fees RM'000	Salaries, Bonus, EPF RM'000	Benefits-in-kind RM'000	Others RM'000	Total RM'000
Gan Thiam Chai	110	818	28	7	963
Timothy Tan Heng Han	60	549	17	7	633
Gan Thiam Hock	63	618	24	8	713
Kwan Sok Kay	60	482	17	7	566
Lim Hun Soon @ David Lim	111	–	–	13	124
Chen Seng Chong (retired on 31 May 2018)	34	–	–	9	43
Lim Peng @ Lim Pang Tun	82	–	–	16	98
Dr. Nik Ismail bin Nik Daud	75	–	–	11	86
Nareshchandra Gordhandas Nagrecha	61	–	–	8	69
Abdul Razak bin Shakor	60	–	–	7	67
Eugene Hon Kah Weng (appointed on 22 November 2018)	6	–	–	7	13
	722	**2,467**	**86**	**100**	**3,375**

Below set out the remuneration in bands of the top six (6) senior management in respect of 31 December 2018.

	Senior Management
RM100,000 to RM200,000	3
RM200,001 to RM300,000	2
RM300,001 to RM400,000	–
RM400,001 to RM500,000	1

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit Committee ("AC")

The AC comprises four Independent Non-Executive Directors. Further details of the AC members' experience and qualifications are set out in profile on the Board of Directors on pages 42 to 51. The varied backgrounds of the AC members and their broad experience, knowledge and expertise from various industries allows them to discharge their duties effectively.

Both the AC Chairman and three (3) of the AC members are qualified MIA members with relevant financial experiences in accounting and auditing. Collectively, all the AC members are financially literate and have knowledge and understanding of the matters under the purview of the AC including the principles and developments of financial reporting.

All the AC members receive trainings and continuous professional developments set out in this Statement on page 60.

The composition of the Audit Committee, including its roles and responsibilities are set out on pages 68 to 70 under the AC Report in this Annual Report. The duties and responsibilities of the AC is also available in the AC's TOR.

External Auditors

Independence and Effectiveness

The Board upholds the integrity of financial reporting. The AC is entrusted to provide advice and assistance to the Board in fulfilling its statutory and fiduciary responsibilities relating to the Company's internal and external audit functions, risk management and compliance systems and practice, financial statements, accounting and control systems and matters that may significantly impact the financial condition or affairs of the business. The AC is also responsible in ensuring that the financial statements of the Company are in accordance with the applicable accounting standards in Malaysia and in compliance with relevant rules and regulation.

The AC met five (5) times during the financial year to discuss financial reporting (quarterly results and annual reporting). Prior to the release of the Company's quarterly results and annual reports, the AC members reviewed the Company's financial statements in the presence of External Auditors prior to its recommendation to the Board for approval and issuance to stakeholders.

The AC is responsible to monitor the performance, objectivity and independence of the external auditor. The AC acknowledges that it is important to maintain an open communication between the Board, the internal auditors and external auditors to enhance their efficiencies and effectiveness.

The AC reviewed the scope of the audit set out in the audit planning memorandum, work plan, areas of audit emphasis, fee proposal, issues arising from the audit and remedial actions to rectify the issues, audit judgements, level of errors identified during the audit and recommendations made by the external auditors in order to fulfil its responsibility for assessing the external audit process.

The AC meets with the external auditors without the presence of the executive directors and management twice a year to discuss key matters within their responsibilities. In addition, the external auditors are invited to attend the Company's Annual General Meeting ("AGM") and are available to attend questions from the shareholders.

In safeguarding and supporting External Auditors' independence and objectivity, the Company has established an External Auditors Assessment Policy to spell out the selection process of new external auditors, basic principles on the prohibition of non-audits services and the approval process for the provision of non-audit services. The External Auditor Assessment Policy was approved by the Board on 27 February 2018.

The AC has also reviewed the nature and extent of non-audit services provided by the external auditors during the financial year. The non-audit fee incurred for the FYE 2018 was RM2,500. The Board is satisfied that the non-audit services during the year by external auditors does not affect the auditor's independence.

The AC reviews annually the appointment of the auditors taking into account the effectiveness and independence of external auditors and ensure that other non-audit works will not be in conflict with the functions of the auditors. To review and assess the independence and effectiveness of the external auditors, the AC completes an external auditors evaluation form on the performance of the assigned audit team on an annual basis. Following the review, the AC, together with the feedback from the management, makes recommendation to the Board.

Auditors Appointment

The Board was of view that the objectivity and independence of the external auditors are not in any way impaired by reason of the non-audit services provided to the Group.

The AC has on 28 February 2019 reviewed the independence and suitability of the external auditor and is satisfied that the external auditor has met the relevant criteria set out in the Bursa Listing Requirements. Hence, the AC has recommended to the Board to reappoint the external auditor for the following financial year.

The external auditors have confirmed in writing that they are, and have been, independent throughout the conduct of the audit engagement with the Company in accordance with the independence criteria set out by the Malaysian Institute of Accountants ("MIA"). In compliance with the MIA requirements, the lead partner is rotated every five (5) years to ensure independence and effectiveness.

Sound Risk Management and Internal Control

The Board has ultimate responsibility for reviewing the Company's risks, approving the risk management framework and the effectiveness of risk management of the Company.

The AC assists the Board in discharging these responsibilities by overseeing and reviewing the risk management framework and the effectiveness of risk management of the Company.

The AC processes are designed to establish a proactive framework and dialogue in which the AC, the management and the external and internal auditors review and assess the risk management framework. The Company Internal Risk Management Working Committee reports to the AC quarterly.

Details on the risk management and internal control system of the Group are set out in the Statement on Risk Management and Internal Control of this Annual Report.

Internal Audit Function

The Group has outsourced the internal audit function to a professional service firm which is independent of the activities and operations of the Group. The outsourced internal auditors report directly to the Audit Committee. Details on the internal audit function are set out in the AC Report and the Statement on Risk Management and Internal Control of this Annual Report.

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

INTEGRITY IN CORPORATE REPORTING

Communications with Stakeholders

The Board recognises the importance of maintaining transparency and accountability to its shareholders as a key element of good corporate governance and thus, maintains a high level of disclosure and communication with its shareholders through various means.

During the financial year, the Company engaged with both existing and potential shareholders in appropriate manner to improve constructive engagement with them. The Company meets with analysts, institutional fund managers, shareholders and potential investors to enable shareholders and other stakeholders to better understand the Company's operations, performance and strategy direction and future prospects.

Significant matters relating to development of the business, reporting requirements etc are disseminated by way of announcements via Bursa Securities and press releases. Interim and full results are announced in a mandatory period.

The Company's website, www.kawanfood.com provide equal access to the shareholders, investors and the public to obtain information on the Company's press releases, corporate information, operation activities, financial results and other information regarding the Group. The website also provides investor relations contact to facilitate response to stakeholders' queries.

The Company also attends queries from shareholders via post, telephone, facsimile or email.

Appropriate Corporate Disclosure Policies and Procedures

The Group is committed to a policy which provides accurate, balanced, clear, timely and complete disclosure of corporate information to enable informed orderly market decisions by investors.

The Group is mindful of the importance of timely and equal dissemination of material information to the stakeholders, media and regulators. In this respect, the Group has in place a Corporate Disclosure Policy to ensure that comprehensive, accurate and timely disclosures are provided to shareholders and stakeholders.

Leverage on Information Technology for Effective Dissemination of Information

The Company has established a website at www.kawanfood.com from which shareholders and members of the public may access the latest information on the operations and activities of the Group as well as relevant information required by Bursa Securities.

The Company ensures timely release of the financial results on a quarterly basis to provide an overview of the Group's performance and operations to its shareholders. The Company also makes timely announcements for the information of its shareholders and the general public of any corporate manoeuvres in accordance with the Listing Requirements.

General Meetings

The last Annual General Meeting ("AGM") was held on 31 May 2018. The AGM is the principal forum for dialogue with shareholders. AGM provides an opportunity for shareholders to understand the financial and operational performance of the Company and to ask questions of the Chairman, other Directors and key management.

Notice of AGM sets out the resolutions together with the Company's Annual Report will be sent to shareholders at least 28 days prior to the meeting to provide shareholders with sufficient time for considerations and to make informed decisions. Shareholders who are unable to attend are allowed to appoint proxies to attend, speak and vote on their behalf.

Shareholders' meeting are important events for the Board to meet the shareholders. The Chairman allocates sufficient time to encourage the shareholders, proxies and the corporate representatives to ask questions pertaining to the matters tabled at general meetings or voice any concerns. The Board, Management team and the Company's external auditors are present at the meetings to answer questions raised and provide clarification as required by the shareholders, proxies and corporate representatives.

Poll Voting

Pursuant to Paragraph 8.29A of MMLR, the Company must ensure that any resolution set out in the Notice of any general meeting is to be voted by poll. The Company has implemented poll voting for all resolutions via electronic means.

The Board will continue to adopt poll voting for all resolutions set out in the Notice of the AGM of which the votes cast will be validated by an independent scrutineer. The outcome of all resolutions proposed at the AGM is to be announced to Bursa Securities at the end of the meeting day while a summary of the key matters discussed at the AGM shall be published on the Company's website as soon as practicable after the conclusion of the AGM.

Directors' Responsibility Statement

The Board is required to present the financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs, the results and cash flows of the Group and the Company.

The Board is satisfied that the Group has used the appropriate accounting policies and applied them consistently and supported by reasonable prudent judgement and estimates, adopted to include new and revised MFRSs where applicable, in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2018. The Board is also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

The Board has also taken all such necessary steps to ensure that proper internal controls are in place to safeguard the assets of the Group and to detect and prevent fraud and other irregularities.

This Statement was approved by the Board on 8 April 2019.

AUDIT COMMITTEE REPORT

The objective of the Audit Committee ("AC") is to assist the Board of Directors in meeting its responsibilities relating to accounting and reporting practices of the Company and its subsidiary companies.

In addition, the AC shall:-

(a) Oversee and appraise the quality of the audits conducted both by the Company's Internal and External Auditors;

(b) Maintain open lines of communication between the Board of Directors, the Internal Auditors and the External Auditors for the exchange of views and information, as well as to confirm their respective authority and responsibilities; and

(c) Determine the adequacy of the Group's administrative, operating and accounting controls.

The terms of reference of the AC is available for reference on the Company's website at www.kawanfood.com.

MEMBERS AND MEETINGS

The AC comprises four (4) members, all of whom are independent Non-Executive Directors. During the financial year, the AC comprise the following members and details of the attendance are as follows:-

Name	Attendance
Chairman	
Lim Hun Soon @ David Lim* (Independent Non-Executive Director)	5/5
Members	
Lim Peng @ Lim Pang Tun* (Independent Non-Executive Director)	5/5
Dr. Nik Ismail bin Nik Daud (Independent Non-Executive Director) (appointed on 31 May 2018)	2/2
Eugene Hon Kah Weng* (Independent Non-Executive Director) (appointed on 22 November 2018)	–
Chen Seng Chong# (Senior Independent Non-Executive Director) (retired on 31 May 2018)	3/3

* Member of the Malaysian Institute of Accountants (MIA).

Mr. Chen Seng Chong ceased to be a member of the AC upon his retirement as Senior Independent Non-Executive Director of the Company on 31 May 2018.

The Main Market Listing Requirement of Bursa Malaysia Securities Berhad ("Bursa Securities") requires at least one member of the AC to fulfil the financial expertise requisite of paragraph 15.09 (1) (c) of Bursa Securities Listing Requirements. The AC chairman and two of the members are members of the MIA and have fulfilled this requirement. Collectively, all the members are financially literate and to able to have an understanding on matters under the purview of the AC.

The profile of the members is available on pages 42 to 51 of this annual report.

The AC met five (5) times during the financial year and all the meetings held coincide with the key events in the group's financial calendar.

The quorum in respect of the AC meetings are formed with independent directors as the majority members.

The AC invites the Managing Director, member(s) of the Board, Financial Controller and other individuals deem appropriate to attend its meetings. The Internal Auditors, External Auditors and other managers also attended the meetings upon invitation to present reports as required for the AC to discharge its duties.

SUMMARY OF WORKS

During the financial year, the AC had carried out its duties and responsibilities in accordance with its terms of reference. The works of the AC were summarised as follows:-

Financial Reporting

- Reviewed quarterly reports and annual audited financial statements of Kawan for the financial year ended 31 December 2018 to ensure that the financial statements were prepared in compliance with the Malaysian Financial Reporting Standard (MFRS) before recommending to the Board of Directors ("Board") for consideration and approval prior to release to Bursa Securities.

External Audit

- Assessed the External Auditors' findings in relation to audit and accounting issues arising from the audit of the Group's financial statements and updates on the changes in the reporting of financial statements as at 31 December 2018.
- Reviewed the Audit Planning Memorandum with the External Auditors.
- Reviewed the independence, objectivity and effectiveness of the External Auditors and the services provided, including non-audit services and corresponding fees.
- Reviewed and recommended the re-appointment of External Auditors and the audit fees to the Board for its approval.
- Reviewed the report of the External Auditors, Messrs. CHENGCO PLT (formerly known as Cheng & Co).
- Discussed the audit strategy, scope of work, audit plan and areas of emphasis with External Auditors.
- Conducted two (2) private sessions with the external auditors in the absence of the Executive Directors and Management to ensure there were no restrictions for the external auditors to express their concerns or problems arising from the audit.
- Reviewed and approved the proposed External Auditor Assessment Policy.

Internal Audit

- Examined the findings of Internal Auditors, key audit matters and recommendations raised by Internal Auditors, Management's response and follow up actions.
- Reviewed the adequacy of the scope, function, competency and resources of the internal audit functions.
- Monitored the implementation of mitigating actions by Management on outstanding issues on a quarterly basis to ensure that all key risks and control weaknesses were properly and timely addressed.
- Held three (3) private meetings with the Head of Internal Audit to discuss on key internal control and audit related matters without the presence of Management.
- Reviewed the key performance indicators, competency and resources of the internal audit function to ensure that it has the required expertise and professionalism to discharge its duties.
- Reviewed and approved the risk based internal audit plan.

Risk Management and Internal Control

- Overseeing the Group's system of internal control and the risk management. The AC continues to monitor and review the effectiveness of the system of control and risk management with the support of the Internal Auditor and Risk Management Working Committee.

Related Party Transactions

- Reviewed the related party transactions entered into by the Company and the disclosures of such transactions in the annual report of the Company.
- Reviewed the recurrent related party transactions report to ensure that the transactions were in the best interest of Kawan and were fair and reasonable.
- Reviewed the Circular to Shareholders in relation to the proposed renewal of shareholders' mandate for recurrent related party transactions of revenue or trading nature.

Compliance

- Reviewed the Terms of Reference of the AC to be in line with the Malaysian Code on Corporate Governance prior to the recommendation to the Board of Directors for adoption.
- Review of the Corporate Governance Overview Statement, AC Report, Management Discussion and Analysis, Sustainability Statement and Statement on Risk Management and Internal Control prior to submission to the Board for consideration and approval for inclusion in the Annual Report FY18.
- Reported to the Board on significant issues and concerns discussed during the AC meetings together with applicable recommendations. Minutes of the AC meetings were tabled and noted by the Board.

INTERNAL AUDIT FUNCTION

The Group's internal audit function, which reports directly to the Audit Committee, is outsourced to Axcelasia Columbus Sdn. Bhd.. The Engagement Director is Mr. Mah Siew Hoong who has diverse professional experience in internal audit, risk management and corporate governance advisory. He is a Chartered Member of the Institute of Internal Auditors Malaysia, a member of the Malaysian Institute of Accountants and a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom. Mr. Mah is a Certified Internal Auditor (USA) and has a Certification in Risk Management Assurance (USA).

The number of personnel deployed for the internal audit reviews ranged from four (4) to five (5) staffs per visit including the engagement director. The staff involved in the internal audit reviews possess professional qualifications and/or university degrees. Most of them are members of the Institute of Internal Auditors Malaysia. The internal audit staff on the engagement are free from any relationships or conflict of interest, which could impair their objectivity and independence, and the internal audit reviews were conducted using a risk based approach and were guided by the International Professional Practice Framework.

During the financial year under review, the outsourced internal audit function carried out the following audit activities:

(a) Prepared the risk based internal audit plan for the review and approval of the AC.

(b) Carried out reviews in accordance with the risk based internal audit plan reviewed and approved by the AC. Details of the reviews carried out are as follows:

No.	Entity	Business Processes
1	Kawan Food (Nantong) Co., Ltd	Human Resource Management, Customer Complaint Management and Production
2	Kawan Food Berhad	Review of Recurrent Related Party Transactions
3	Kawan Food Manufacturing Sdn. Bhd.	Management of Information System, Sales Rebates, Advertising and Promotion, Fixed Asset Management and Inventory Management

Findings from the internal audit reviews conducted were discussed with Senior Management and subsequently presented, together with Management's response and proposed action plans, to the Audit Committee for their review and approval at the quarterly AC meeting. The outsourced internal audit function also carries out follow up review and reports to the AC on the status of implementation of action plans pursuant to the recommendations highlighted in the internal audit reports.

Based on the internal audit reviews conducted, although a number of internal control deficiencies were identified during the reviews, none of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require a separate disclosure in this annual report.

The total professional fees paid for the outsourcing of the internal audit function for the financial year ended 31 December 2018 was RM82,000.

An overview of the state of internal control within the Company is set out in the Statement on Risk Management and Internal Control on pages 72 to 78 of this Annual Report.

ADDITIONAL COMPLIANCE INFORMATION PURSUANT TO THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

MATERIAL CONTRACTS

There were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interest which were still subsisting as at the end of the financial year ended or which were entered into since the end of the previous financial year (not being contracts entered into in the ordinary course of business) except as disclosed below and in Notes 32 to the financial statements under "Related Parties" on pages 148 to 149 of this Annual Report.

AUDIT AND NON-AUDIT FEES

During the financial year ended 31 December 2018, the amount of audit and non-audit fees paid and payable by the Company and the Group to the external auditors are as follows:

	Company (RM)	Group (RM)
Audit services rendered	42,000	231,670
Non-audit services rendered	2,500	2,500
Total	**44,500**	**234,170**

UTILISATION OF PROCEEDS

There were no proceeds raised by the Company from any corporate proposals during the financial year ended 31 December 2018.

RECURRENT RELATED PARTY TRANSACTIONS OF REVENUE OR TRADING NATURE

At the Fourteenth Annual General Meeting ("AGM") held on Thursday, 31 May 2018, the Company obtained a shareholders' mandate to allow the Group to enter into recurrent related party transactions of a revenue or trading nature. The disclosure of the recurrent related party transactions conducted during the financial year ended 31 December 2018 is set out on page 149 of the Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Pursuant to paragraph 15.26 (b) of Bursa Malaysia Securities Berhad Main Market Listing Requirements and as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers and Malaysian Code of Corporate Governance ("MCCG"), the Board of Director ("Board") is pleased to provide Kawan Food Berhad's Statement on Risk Management and Internal Control which outlines the nature and scope of its risk management and internal controls of the Group for the financial year ended 31 December 2018.

BOARD RESPONSIBILITY

The Board recognises the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibilities for establishing and maintaining a sound risk management and internal control systems, and for reviewing its adequacy and integrity to safeguard shareholders' investment and the Group's assets.

There are inherent limitations in any risk management and internal control systems. The systems effected by Management are designed to manage and minimise the risk of failure rather than eliminate the risks faced by the Group in the achievement of its objectives and strategies. Hence, the risk management and internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's risk management and internal control systems do not include jointly controlled companies as the Group does not have management control over these entities. However, the Group's interest in these entities are served through representation of the jointly controlled companies on the Board.

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

1. Risk Management

The Board has established a structured risk management framework as an approach for continuous identification, assessment, treatment, monitoring and review of risks. The Group adopts the three lines of defence in implementing its risk management:

FIRST LINE OF DEFENCE

System of internal controls put in place by management which includes controls in relation to day-to-day business together with the supervisory procedures necessary to ensure compliance. The departmental heads are the first line of defence which are accountable for all risk under their respective areas.

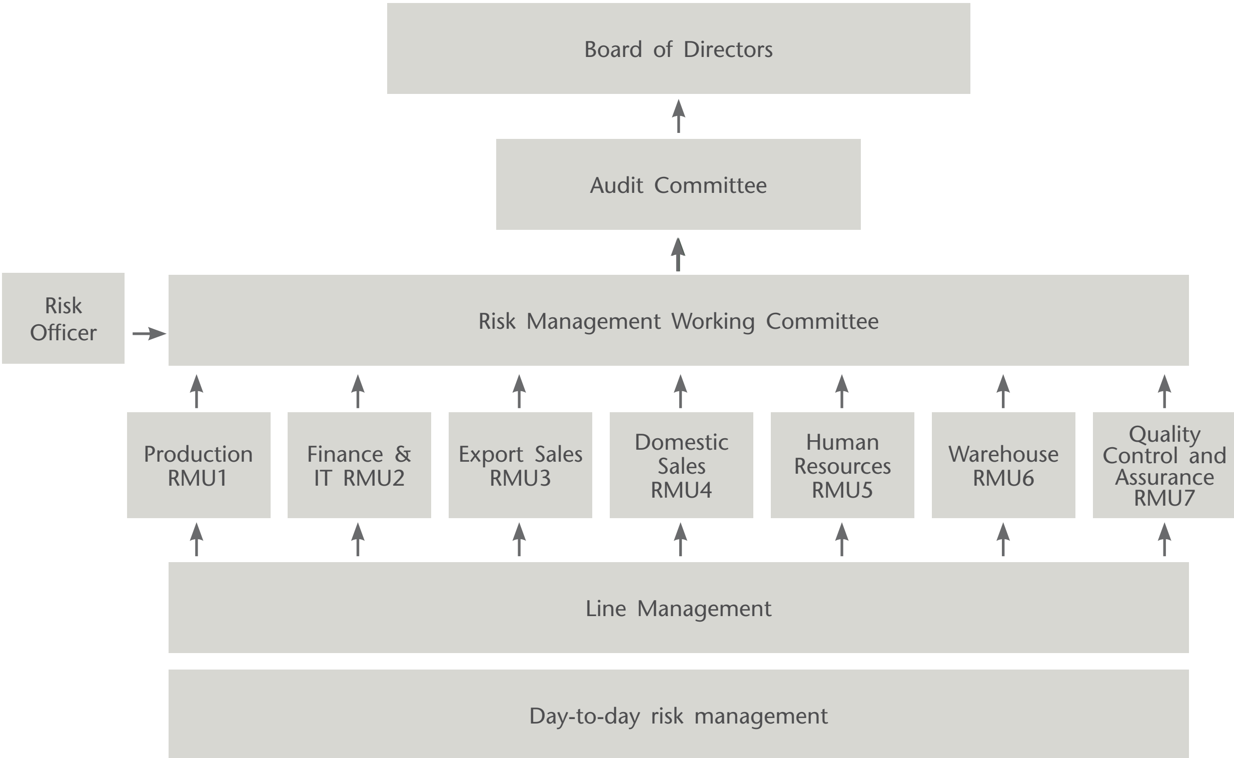
SECOND LINE OF DEFENCE

Monitoring by internal risk management working committee within the risk management framework with oversight by the Audit Committees ("AC").

THIRD LINE OF DEFENCE

Internal and external auditors provide assurance to the AC and Board that internal controls is operating effectively. The AC is responsible for reviewing the effectiveness of the risk management and internal control based on the information and assurances provided to it.

The parties involved in the risk management process comprise the following:



The roles and responsibilities of the various parties are as follows:

The Board

The Board is responsible for the Group's risk management system, constantly reviewing its effectiveness. The Board sets the tone and culture towards effective risk management by identifying and monitoring material risks, setting risk appetite and determining risk tolerance of the Group.

The Audit Committee ("AC")

Under delegation from the Board, the AC regularly monitors the Group's risk management system and oversees the effectiveness of the processes.

At quarterly interval, the AC meets with the Risk Officer who provides the AC with the Group's risk management reports on the RMWC's key findings on key risks, mitigating controls together with updates on progress of the status of risk management in the Group.

The AC monitors the processes, reviews the risk register and reports the key matters discussed at the AC meetings to the Board.

Risk Management Working Committee ("RMWC")

The RMWC comprises the Managing Director and heads of department from productions, finance, IT, export sales, domestic sales, engineering, quality control and assurance, warehouse and human resources, meets quarterly to review the effectiveness of the current risk management processes.

The RMWC also maintains a risk register which set out the nature, risk levels, treatment and control of the material risks faced by each department and the Group as a whole. The risks are prioritised in accordance with the risks level (in terms of likelihood and impact based on the risk management policy). The risk register is used to facilitate the identification and assessment of material risks in each department and the Group as well as to ensure that there are appropriate controls in place. Please refer to the summary of the Group's material risks in Table 2.0.

The overall risk profiles were reviewed by the RMWC at their meetings held on 13 February, 3 May, 8 June, and 23 October 2018. The RMWC provided inputs to the process, sharing their view of key risks and activities in place or plans that mitigate them.

The appointed Risk Officer presented the risk management report to the AC at their meetings held on 27 February, 24 May, 20 August and 21 November 2018.

Risk Management Unit ("RMU")

The RMU is established at departmental level. Each of the RMU performs risk assessments to identify, evaluate and manage the identified risks. The respective heads are responsible to assess the changes to the existing and new risks and to determine the risk treatments and controls to manage the risks.

The collated risks from each RMU are shared with the respective heads who present their risks to the RMWC.

Line Management

Each department has managers who are responsible to assess risks for the department and report to their heads. Each individual department team identifies the principal significant and potential risks associated with their respective department and ensure that relevant risk management controls are implemented within the operations.

Risk Assessment Process

The Group's Risk Assessment Framework are set out as follows:

STRATEGIC OBJECTIVES

RISK IDENTIFICATION

- Identify new risks and changes that affect existing risks faced by each department and the Group as a whole.

RISK ANALYSIS

- Assess the consequences and the likelihood of occurrence of risks.

RISK EVALUATION & RESPONSE

- Determine the significance of each of the risks and risk level.
- Address the risk by implementing action plans/controls to monitor, mitigate and minimise the risk exposures.

RISK MONITORING AND REVIEW

- Monitor the effectiveness of risk controls
- Review the material risks and risk levels and suggest: ensure that there are appropriate controls in place for the activities and the controls are understood and followed.

The on-going risk management activities of the Group are to identify, evaluate and manage risks. This process had been in place for the year under review and up to the date of approval of this statement.

During the financial year under review, the RMWC met four (4) times on a quarterly basis to deliberate on the risk assessments and mitigating controls to assess the identified risks including emerging risks and incorporate them into the risk register. The appointed Risk Officer provided the AC the Group Risk Management Reports at their scheduled meetings.

2. Material Risks

The Group's material risks identified and the mitigating measures for the FY18 are outlined below:

Risk	Description	Mitigation
Regulatory and Standard Management	• Failure to meet statutory requirements, Halal, British Retail Consortium, MOH MS1480 HACCP certification and Occupational Safety and Health Administration could have an adverse impact on the Group's business and reputation.	• Conduct regular internal audit by Food Safety Committee. • Provide training for new committee members. • Closely monitor and update committee members on the latest updates on respective regulations and standards.
Human Resource Management	• The Group is currently growing and undergoing significant changes. The success and future growth of the Group depends on attracting and retaining competent employees. • Failure to attract and retain employees in meeting future business needs could have a material adverse effect on our business.	• Career development plan is established to identify competency requirements across the Group and equip employees with necessary skills via trainings. • Revised terms and benefits of employment in line with the relocation of factory.
Information Technology Management	• Extensive use of IT to support business operation may expose the Group to cyber threats such as viruses and data loss. • Failure or inadequacy of IT in safeguarding its infrastructure, security, applications and/or computer operations could result in the loss of critical information, business disruption and potential loss of business and competitive edge that have significant impact on the business. • The Group is currently undergoing changes to move the system to cloud service and which may rely heavily on vendor to support its business. The Group's operation may be affected by the control access for the cloud system.	• Implementation of password protected logon procedures. • Back up data stored in secure off-site premises. • Monitor software licenses in compliance with regulatory requirements. • The Group works closely with its vendor to maintain its service level agreement.
Key Customer Relationship	• Our key customer contributed more than 10% of our sales. • Loss of this key customer could result in a material impact on the result.	• Continue to reach a wider range of customers and further expand into other international markets.

Risk	Description	Mitigation
Quality Assurance Management	• Failure to maintain consistency in product quality may affect our earnings, business operations, brand and reputation.	• Strict adherence to the Group's operation management system. • Conduct Group's training programs.
Sabotage/Malicious Actions	• The large volume and range of food that the Group produces may be at risk to adulteration through malicious actions due to integrity issues and/or breach of trust. • This could have a material reputational and financial impact to our Group.	• Grievance policy in place. • Whistleblowing policy which includes disciplinary action against committing improprieties and illegal acts and protection to whistleblower. • Communicate with our staff on the consequences and impose penalties when necessary. • Installation of additional CCTV at storage and critical production area.
Operational costs	• Our Group's margin could be affected by higher operational costs such as raw material costs, labour costs etc. In addition, labour costs are significant and could have a material effect with changes in government policies. • Our inability to pass the costs to our customers would affect our business.	• Continuous emphasis on process and cost improvements.
Health and Safety	• CO_2, ammonia gas and chemical substances are used in our cooling and refrigeration system. Our employees are potentially exposed to leakage of the gas(es) and chemical substances from the systems which may lead to reputational damage, loss of customer confidence, civil litigation and cost increase.	• Comprehensive safety and health policies and procedures have been developed and supplemented by regular preventive and routine maintenance. • 24 hours real time monitoring via Supervisory Control and Data Acquisition (SCADA) systems
Machinery breakdown	• The Group is at risk of disruption to its daily business operations from breakdown of machineries. • Risk of machinery breakdown may have an adverse effect on productivity.	• Strict adherence to the scheduled preventive and routine maintenance. • Maintain safe stock level for the critical parts.

3. Internal And External Audits

The Group's Internal Auditors assists the Board and Audit Committee by providing an independent assessment of the adequacy and effectiveness of the Group's internal control system. Further details of the Internal Audit functions are set out in the Audit Committee Report on page 70 of this Annual Report.

The internal auditors met the AC on 24 May, 20 August and 21 November 2018 and the external auditors met with the AC on 27 February 2018 without the executive members of the Board and management team being present to discuss audit related matters.

4. Internal Control System

The key features of the Group's internal control system are as follows:

- The AC and Board

  The AC and Board met four times during the financial year to monitor and review the adequacy and effectiveness of the internal control system (which covers material controls including financial, operational and compliance controls).

  In addition, the AC and Board are kept updated on the Group's activities and its operations.

- Organisation Structure and Authorisation Procedures

  In FY18, the Group revised its organisational structure with clearly defined lines of responsibilities and authorities in order to align to its business and operational needs. The delegation of authorities was amended and approved by the Board on December 2018. It sets out matters specifically reserved for Board's approval and those matters delegated to the management. These cover financial, operating, investment, capital and operating expenditures. The authority limits are regularly reviewed and updated to reflect the business and operational changes and needs.

- Annual Budget and Financial Projections

  The Company's annual budget and three year financial projections prepared by management are reviewed by the Financial Controller and Managing Director prior to its submission to the AC and Board for approval. The Company's actual performances on a monthly basis is then monitored against the approved budget with explanations of major variances.

- Group Policies, Procedures and Instructions

  The Group has put in place documented policies, procedures and instructions which cover food safety, security, product quality assurance, marketing and sales, human resource and purchasing etc to provide guidance for the employees. These policies approved by management are subject to review as and when required to ensure its relevance to the Group's operations and continue to support the Group's business activities as it continues to grow.

- Human Resource Policy

  Comprehensive guidelines on employment are in place to ensure that the Group has a team of employees who are well trained and equipped with all necessary knowledge, skills and abilities to carry out their responsibilities effectively.

  In addition, the Group has recently set up a performance management system to assess employees performance and to identify and assess talent for career development.

- Whistleblowing Policy

  The Group has put in place a whistleblowing policy which provides employees with accessible channels to raise concerns or disclose information regarding suspected or known malpractices, misconducts or wrongdoings within the Group. The policy on whistleblowing is available on the Group's website.

- Information and Communication

  Effective communication of critical information to the achievement of the Group's business objectives through clear reporting lines are established across the Group. This is to ensure that matters that require the Board and Senior Management's attention are highlighted for review, deliberation and decision on a timely basis.

- Monitoring and Review

  Management has set up Operations Committee Meetings that meet bi-weekly to discuss operational and other pertinent issues. Monthly management reports comprising key financial results and operational performance are reviewed and monitored by the management team. Quarterly financial statements are presented to the Board for their review, consideration and approval.

- External Certifications

  As part of the safety and other compliance initiatives, the Group continues to work towards maintaining British Retail Consortium, HALAL and Occupational Health and Safety Assessment Series certifications.

  All of our manufacturing sites are subject to independent thirty party audits under BRC Global Standard for Food Safety undertaken by Lloyd's Register Quality Assurance.

  BRC specifies the safety, quality and operational criteria required to be placed within a food manufacturing organisation to fulfil obligations regarding legal compliance and protection of the consumers. The format and content of the Standard is designed to allow an assessment of a company's premises, operational systems and procedures by a competent third party – the certification body – against the requirements of the Standard.

  MS 1480:2007 (First Revision) is a Malaysia food safety standard which describes the requirements for food safety according to Hazard Analysis and Critical Control Points ("HACCP") system to ensure the safety of foodstuffs during preparation, processing, manufacturing, packaging, storage, transportation, distribution, handling or offering for sale or supply in any sector of the food chain.

  We have been awarded MS1480 certification which is internationally recognised standard that enables the Group to be issued with health certificate without end product testing.

  In addition, Malaysian Islamic Development Department (JAKIM) and Jabatan Agama Islam Selangor (JAIS) have added Kawan Food to the HALAL 'White List" in FY17 and FY18 respectively for HALAL fast track application which allows JAKIM and JAIS to expedite the issuance of HALAL certificate within three (3) days. However, the Group will be subject to ad-hoc audits from time to time to ensure compliance with the systems.

  Internal audits were also carried out by external third parties to ensure compliance with these standards.

REVIEW OF THIS STATEMENT BY THE EXTERNAL AUDITOR

Pursuant to Paragraph 15.23 of the Bursa Malaysia Securities Berhad's Main Market Listing Requirement, the External Auditors have reviewed this Statement on Risk Management & Internal Control for inclusion in the FY18 Annual Report. Their review was performed in accordance with Recommended Practice Guide (RPG) 5 (revised): 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. Based on their review, nothing has come to their attention that causes them to believe that this statement is not prepared, in all material respect, in accordance with the disclosures required by paragraph 41 and 42 of the Statement on Risk Management and Internal Control: Directors of Listed Issuers to be set out, or is factually inaccurate.

CONCLUSION

The Managing Director and Financial Controller have provided assurance to the Board that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects.

The Board is of the view that the risk management and internal control systems are satisfactory and have not resulted in any material losses, contingencies or uncertainties that would require separate disclosure in the Group's annual report. Nevertheless, the Board shall continue to take the appropriate and necessary measures to improve the Group's risk management and internal controls system to meet the Group's corporate objectives.

This statement was approved by the Board on 8 April 2019.

STATEMENT ON DIRECTORS' RESPONSIBILITY

The Board of Directors is required under Paragraph 15.26(a) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad to issue a statement explaining the Board's responsibility in preparing the annual financial statements.

In preparing the annual financial statements of the Company and the Group, the Directors are collectively responsible to ensure that these financial statements have been properly drawn up in accordance with the applicable approved Malaysian Financial Reporting Standard issued by the Malaysian Accounting Standards Board and the provisions of the Companies Act, 2016 ("the Act") so as to give a true and fair view of the financial position of the Company and the Group at the end of the financial year and the financial performance and cash flows of the Company and the Group for the year then ended.

In preparing the financial statements for the year ended 31 December 2018, the Directors have:

i) adopted appropriate accounting policies and applied them consistently;
ii) made judgements and estimates that are reasonable and prudent;
iii) prepared financial statements on the going concern basis; and
iv) ensured applicable accounting standards have been followed, subject to any material departure and explained in the financial statements.

The Directors have responsibility for ensuring that the proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

This Statement is made in accordance with a resolution of the Board of Directors dated 8 April 2019.

FINANCIAL STATEMENTS

CORPORATE INFORMATION

Directors : Gan Thiam Chai
Gan Thiam Hock
Timothy Tan Heng Han
Kwan Sok Kay
Nareshchandra Gordhandas Nagrecha
Lim Hun Soon @ David Lim
Lim Peng @ Lim Pang Tun
Abdul Razak bin Shakor
Dr. Nik Ismail bin Nik Daud
Eugene Hon Kah Weng (appointed on 22 November 2018)
Chen Seng Chong (retired on 31 May 2018)

Company secretaries : Tai Yuen Ling (LS 0008513)
Tai Yit Chan (MAICSA 7009143)

Registered office : Lot 6.05, Level 6, KPMG Tower
8 First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Principal Business address : Lot 129351 Jalan Sungai Pinang 4/19
Taman Perindustrian Pulau Indah
Selangor Halal Hub, Fasa 2C
42920 Pulau Indah
Selangor Darul Ehsan
Malaysia

Auditors : CHENGCO PLT
(Formerly known as Cheng & Co)
LLP0017004-LCA & AF 0886
No. 8-2 & 10-2, Jalan 2/114
Kuchai Business Centre
Off Jalan Klang Lama
58200 Kuala Lumpur
Malaysia

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors have pleasure in submitting 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 Company is principally engaged in investment holding activities, whilst the principal activities of its subsidiaries are as stated in Note 7 to the financial statements. There have been no significant changes in the nature of the activities during the financial year.

RESULTS

	Group RM	Company RM
Net profit for the financial year attributable to:		
Owners of the Company	22,807,277	12,464,257

In the opinion of the Directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

RESERVES AND PROVISIONS

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

DIVIDENDS

Since the end of the previous financial year, the Company declared and paid an interim single tier dividend of 2.5 sen per ordinary share totaling RM8,987,995 in respect of the financial year ended 31 December 2018 on 30 March 2018.

The Directors do not recommend any final dividend to be paid for the financial year under review.

DIRECTORS

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

Gan Thiam Chai
Gan Thiam Hock
Timothy Tan Heng Han
Kwan Sok Kay
Nareshchandra Gordhandas Nagrecha
Chen Seng Chong (retired on 31 May 2018)
Lim Hun Soon @ David Lim
Lim Peng @ Lim Pang Tun
Abdul Razak bin Shakor
Dr. Nik Ismail bin Nik Daud
Eugene Hon Kah Weng (appointed on 22 November 2018)

DIRECTORS' INTERESTS

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly owned subsidiaries) of those who were Directors at financial year end, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016, are as follows:

	Number of ordinary shares			
	At 1.1.2018	Bought	Sold	At 31.12.2018
The Company				
Direct interests				
Gan Thiam Chai	87,724,248	–	–	87,724,248
Gan Thiam Hock	21,333,600	700,000	–	22,033,600
Timothy Tan Heng Han	135,000	–	–	135,000
Kwan Sok Kay	16,544,972	–	–	16,544,972
Lim Hun Soon @ David Lim	7,460,028	–	–	7,460,028
Lim Peng @ Lim Pang Tun	450,000	–	–	450,000
Deemed interests				
Gan Thiam Chai	3,972,849	1,466,300	–	5,439,149
Timothy Tan Heng Han	3,972,849	16,000	–	3,988,849
Kwan Sok Kay	3,972,849	1,466,300	–	5,439,149
Nareshchandra Gordhandas Nagrecha	67,782,400	340,800	–	68,123,200

By virtue of their substantial interests in the shares of the Company, Gan Thiam Chai and Nareshchandra Gordhandas Nagrecha are also deemed interested in the shares of the subsidiaries to the extent that the Company has an interest.

None of the other Directors holding office at 31 December 2018 had any interest in the ordinary shares of the Company and of 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 the benefits shown under Directors' remuneration) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors, and the spouse of a Director and children of certain Directors who have significant financial interests in companies which traded with certain companies within the Group in the ordinary course of business as disclosed in Note 32 to the financial statements.

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

DIRECTORS' REMUNERATION

The details of the Directors' remuneration are disclosed in Note 31 to the financial statements.

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount of indemnity coverage and insurance premium paid for the Directors and the officers of the Group and of the Company are RM20,000,000 and RM33,250 respectively.

ISSUE OF SHARES AND DEBENTURES

The Company has not issued any new shares or debentures during the financial year.

OPTION GRANTED OVER UNISSUED SHARES

No options have been granted to any parties to take up unissued shares of the Company during the financial year.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Company. At the end of the financial year, there were no unissued shares of the Company under options.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

The Company has implemented an ESOS of up to fifteen percent (15%) of the Company's total number of issued shares (excluding treasury shares, if any) for the eligible employees of the Group effective from 2 October 2018. As at the date of this report, the Company has yet to grant any options under the ESOS.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that there are no known bad debts to be written off and that adequate allowance has been made for doubtful debts in the financial statements of the Group and of the Company; and

(b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the values of the current assets as shown in the accounting records of the Group and of the Company had been written down to an amount which the current assets might be expected so to realise.

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

(a) which would render the amount written off for doubtful debts inadequate to any substantial extent or require the making of allowance for doubtful debts in the financial statements of the Group and of the Company; or

(b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or

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

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

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

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

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

OTHER STATUTORY INFORMATION (CONTINUED)

In the opinion of the Directors:

(a) other than those disclosed in Note 33 to the financial statements, no contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of the operations of the Group and of the Company for the current financial year in which this report is made.

AUDITORS' REMUNERATION

The details of the auditors' remuneration are disclosed in Note 20 to the financial statements.

LIST OF DIRECTORS OF SUBSIDIARIES

Pursuant to Section 253 of the Companies Act, 2016 in Malaysia, the list of Directors of the subsidiaries during the financial year and up to the date of this report are:

Gan Thiam Chai
Gan Thiam Hock
Kwan Sok Kay
Lau Wing Hon

SUBSEQUENT EVENTS

Significant events subsequent to the reporting date are disclosed in Note 34 to the financial statements.

AUDITORS

The auditors, CHENGCO PLT (Formerly known as Cheng & Co), have expressed their willingness to continue in office.

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

....	....
GAN THIAM CHAI	**GAN THIAM HOCK**
Director	Director

Selangor,
Date: 8 April 2019

STATEMENT BY DIRECTORS

(PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016)

We, Gan Thiam Chai and Gan Thiam Hock, being two of the Directors of Kawan Food Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 90 to 150 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 the financial performance and cash flows of the Group and of the Company for the financial year ended on that date.

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

....
GAN THIAM CHAI
Director

....
GAN THIAM HOCK
Director

Selangor,
Date: 8 April 2019

STATUTORY DECLARATION

(PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016)

I, Teoh Soon Tek, being the officer primarily responsible for the financial management of Kawan Food Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements of the Group and of the Company set out on pages 90 to 150 are correct and I made this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at)
Puchong in the State of Selangor Darul Ehsan)
on 8 April 2019)

Before me,

....
TEOH SOON TEK
Officer

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KAWAN FOOD BERHAD
(Company No.: 640445-V)
(Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Kawan Food 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 90 to 150.

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 their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conducts 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 these requirements and the IESBA Code.

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.

We have determined the matters described below to be the key audit matters to be communicated in our report.

Additions of Property, Plant and Equipment Refer to Page 116, Note 4 to the financial statements	
Area of focus	**How the scope of our audit addressed the area of focus**
We focused on this area because the Group invested significant amount of property, plant and equipment. During the financial year, the Group purchased property, plant and equipment amounting to RM21,279,001. In view of significant amount involved, we have checked the accuracy of the recording and the existence of these assets. We have determined that, there are key audit matters to communicate in our report in relation to our audit of the financial statements of the Company	To address this risk, the following audit procedures have been undertaken: • We have performed necessary primary substantive testing to verify these additions during the financial year; and • We have also performed physical sighting and obtained business rationale on all major additions of property, plant and equipment.

Revenue Recognition Refer to Page 127, Note 18 to the financial statements	
Area of focus	**How the scope of our audit addressed the area of focus**
Revenue is one of the largest accounts in the financial statements and an important driver of the Group's operating results. We assessed the risk of material misstatement in respect of revenue recognition to be high and therefore identified it as an area of audit focus. Specifically, we focused our audit efforts to determine that the revenue are fairly stated.	Our audit procedures included, among others: • Assessed internal control procedures over timing and amount of revenue recognition; • Performed test of control; • Run through the relevant ledger to ensure no unusual or material item; • Run through the sales invoices and performed cut-off test to ensure all the invoices are in running sequence and revenue are recognised in the correct period; • Inspected documents which evidenced the delivery of goods to customers; • Performed substantive test; • Check the reasonableness of the foreign exchange rate used.

We have determined that, there are no key audit matters to communicate in our report in relation to our audit of the financial statements of the Company.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 other information included in the annual report but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the 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.

Auditor's 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 auditor's 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 a part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment 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 Directors.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of 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 auditor's 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 auditor's 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide 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 requirement of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 7 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 content of this report.

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CHENGCO PLT
(Formerly known as Cheng & Co)
LLP0017004-LCA & AF 0886
Chartered Accountants

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HONG THUAN BOON
02233/03/2020 J
Chartered Accountant

Kuala Lumpur,
Date: 8 April 2019

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Notes	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
ASSETS					
Non-current assets					
Property, plant and equipment	4	**244,422,740**	230,809,766	–	–
Investment properties	5	**2,468,900**	2,539,157	–	–
Prepaid lease payments	6	**2,935,302**	3,114,167	–	–
Investment in subsidiaries	7	–	–	**60,175,510**	59,643,110
Deferred tax assets	9	**475,523**	406,670	–	–
		250,302,465	236,869,760	**60,175,510**	59,643,110
Current assets					
Trade and other receivables	10	**52,787,905**	49,209,264	**114,477,768**	104,085,341
Other investments	11	**2,413,845**	871,591	–	–
Inventories	12	**23,465,591**	15,210,068	–	–
Current tax assets		**5,777,869**	2,767,208	–	61,274
Prepayments		**2,713,141**	244,698	**20,416**	15,251
Cash and cash equivalents	13	**39,459,385**	62,785,272	**12,491,175**	19,692,899
		126,617,736	131,088,101	**126,989,359**	123,854,765
Total assets		**376,920,201**	367,957,861	**187,164,869**	183,497,875
EQUITY AND LIABILITIES					
Equity					
Share capital	14	**179,759,880**	179,759,880	**179,759,880**	179,759,880
Reserves	15	**141,704,863**	129,039,994	**7,159,924**	3,683,662
Total equity		**321,464,743**	308,799,874	**186,919,804**	183,443,542
Liabilities					
Non-current liabilities					
Loans and borrowings	16	**12,980,630**	16,603,132	–	–
Deferred tax liabilities	9	**5,659,660**	1,199,190	–	–
		18,640,290	17,802,322	–	–
Current liabilities					
Loans and borrowings	16	**3,622,502**	7,760,460	–	–
Trade and other payables	17	**32,455,901**	33,134,075	**56,164**	54,333
Current tax liabilities		**736,765**	461,130	**188,901**	–
		36,815,168	41,355,665	**245,065**	54,333
Total liabilities		**55,455,458**	59,157,987	**245,065**	54,333
Total equity and liabilities		**376,920,201**	367,957,861	**187,164,869**	183,497,875

The accompanying notes form an integral part of these financial statements

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

		Group		Company	
	Notes	2018 RM	2017 RM	2018 RM	2017 RM
Revenue	18	**199,984,904**	196,282,105	**7,876,000**	5,000,000
Cost of sales		**(120,563,123)**	(112,041,593)	–	–
Gross profit		**79,421,781**	84,240,512	**7,876,000**	5,000,000
Other income	19	**1,934,628**	3,309,434	**822,353**	1,975,800
Selling and distribution expenses		**(34,002,670)**	(31,836,910)	–	–
Administrative expenses		**(18,137,640)**	(19,982,905)	**(1,680,342)**	(7,520,670)
Profit/(loss) from operating activities		**29,216,099**	35,730,131	**7,018,011**	(544,870)
Finance income	21	**655,352**	710,293	**7,191,766**	6,119,625
Finance costs	22	**(626,876)**	(387,735)	**(345)**	(1,310)
Profit before tax	20	**29,244,575**	36,052,689	**14,209,432**	5,573,445
Tax expense	23	**(6,437,298)**	(6,946,218)	**(1,745,175)**	(1,015,359)
Net profit for the financial year		**22,807,277**	29,106,471	**12,464,257**	4,558,086
Other comprehensive income, net of tax:					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations	24	**(1,154,413)**	(4,998,796)	–	–
Total comprehensive income for the financial year		**21,652,864**	24,107,675	**12,464,257**	4,558,086
Net profit attributable to owners of the Company		**22,807,277**	29,106,471	**12,464,257**	4,558,086
Total comprehensive income attributable to owners of the Company		**21,652,864**	24,107,675	**12,464,257**	4,558,086

		2018 sen	2017 sen
Earnings per ordinary share:			
Basic	25	**6.34**	8.10

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Notes	Attributable to owners of the Company				Total equity RM
		Non-distributable			Distributable	
		Share capital RM	Share premium RM	Translation reserve RM	Retained earnings RM	
Group						
At 1 January 2017		134,819,910	37,535,013	14,983,699	104,094,576	291,433,198
Net profit for the financial year		–	–	–	29,106,471	29,106,471
Other comprehensive expense for the financial year		–	–	(4,998,796)	–	(4,998,796)
Total comprehensive (expense)/income for the financial year		–	–	(4,998,796)	29,106,471	24,107,675
Contributions by and distributions to owners						
– bonus issue	14 & 15	44,939,970	(37,535,013)	–	(7,404,957)	–
– dividends to owners of the Company	26	–	–	–	(6,740,999)	(6,740,999)
At 31 December 2017/1 January 2018		**179,759,880**	–	**9,984,903**	**119,055,091**	**308,799,874**
Net profit for the financial year		–	–	–	**22,807,277**	**22,807,277**
Other comprehensive expense for the financial year		–	–	**(1,154,413)**	–	**(1,154,413)**
Total comprehensive (expense)/income for the financial year		–	–	**(1,154,413)**	**22,807,277**	**21,652,864**
Contributions by and distributions to owners						
– dividends to owners of the Company	26	–	–	–	**(8,987,995)**	**(8,987,995)**
At 31 December 2018		**179,759,880**	–	**8,830,490**	**132,874,373**	**321,464,743**

The accompanying notes form an integral part of these financial statements

		Non-distributable		Distributable	
	Notes	Share capital RM	Share premium RM	Retained earnings RM	Total equity RM
Company					
At 1 January 2017		134,819,910	37,535,013	13,271,532	185,626,455
Net profit and total comprehensive income for the financial year		–	–	4,558,086	4,558,086
Contributions by and distributions to owners					
– bonus issue	14 & 15	44,939,970	(37,535,013)	(7,404,957)	–
– dividends to owners of the Company	26	–	–	(6,740,999)	(6,740,999)
At 31 December 2017/1 January 2018		**179,759,880**	–	**3,683,662**	**183,443,542**
Net profit and total comprehensive income for the financial year		–	–	**12,464,257**	**12,464,257**
Contributions by and distributions to owners					
– dividends to owners of the Company	26	–	–	**(8,987,995)**	**(8,987,995)**
At 31 December 2018		**179,759,880**	–	**7,159,924**	**186,919,804**

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CASH FLOWS

For the financial year ended 31 December 2018

	Notes	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
Cash flows from operating activities					
Profit before tax		**29,244,575**	36,052,689	**14,209,432**	5,573,445
Adjustments for:					
Amortisation for prepaid lease payments	6	**77,245**	79,850	–	–
Depreciation of investment properties	5	**52,689**	53,060	–	–
Depreciation of property, plant and equipment	4	**6,837,683**	6,047,699	–	–
Dividend income		–	–	**(7,876,000)**	(5,000,000)
Finance income from inter company	21	–	–	**(6,965,474)**	(5,691,737)
Finance income from deposits	21	**(655,352)**	(710,293)	**(226,292)**	(427,888)
Interest expense	22	**413,031**	160,106	–	–
(Gain)/loss on disposal of property, plant and equipment	20	**(48,217)**	87,433	–	–
Net impairment loss/(gain) on financial assets	20	**683,200**	(179,200)	–	–
Trade and other receivables written off	20	**652,802**	–	–	–
Unrealised foreign exchange differences	19	**(243,339)**	1,371,188	**(822,353)**	5,280,168
Operating profit/(loss) before working capital changes		**37,014,317**	42,962,532	**(1,680,687)**	(266,012)
Changes in working capital:					
Inventories		**(8,255,523)**	(2,300,798)	–	–
Trade and other receivables, prepayments and other financial assets		**(6,509,443)**	(1,313,759)	**(3,980,599)**	(2,727,201)
Trade and other payables		**(942,493)**	(1,047,873)	**1,831**	(11,237)
Cash generated from/(used in) operations		**21,306,858**	38,300,102	**(5,659,455)**	(3,004,450)
Dividend received		–	–	**7,876,000**	5,000,000
Income tax paid		**(3,329,211)**	(9,210,876)	**(1,495,000)**	(1,209,834)
Income tax refund		–	193,666	–	154,401
Net cash from operating activities		**17,977,647**	29,282,892	**721,545**	940,117
Cash flows from investing activities					
Acquisition of property, plant and equipment, net of interest capitalised	4	**(21,279,001)**	(35,539,428)	–	–
Proceeds from disposal of property, plant and equipment		**51,000**	119,104	–	–
Finance income from inter company		–	–	**118,340**	606,178
Finance income from deposits		**655,352**	710,293	**226,292**	427,888
Changes in investment in unit trusts		**(2,225,454)**	475,325	–	–
Net cash (used in)/from investing activities		**(22,798,103)**	(34,234,706)	**344,632**	1,034,066

		Group		Company	
	Notes	2018 RM	2017 RM	2018 RM	2017 RM
Cash flows from financing activities					
Dividends paid to owners of the Company	26	**(8,987,995)**	(6,740,999)	**(8,987,995)**	(6,740,999)
Repayment of loans and borrowings		**(7,760,460)**	(3,320,626)	–	–
Drawdown of loans and borrowings		–	4,445,155	–	–
Finance costs on loans and borrowings	22	**(413,031)**	(1,084,777)	–	–
Net cash used in financing activities		**(17,161,486)**	(6,701,247)	**(8,987,995)**	(6,740,999)
Net decrease in cash and cash equivalents		**(21,981,942)**	(11,653,061)	**(7,921,818)**	(4,766,816)
Effect of exchange rate fluctuation on cash held		**(1,343,945)**	(6,000,871)	**720,094**	–
Cash and cash equivalents at 1 January		**62,785,272**	80,439,204	**19,692,899**	24,459,715
Cash and cash equivalents at 31 December	13	**39,459,385**	62,785,272	**12,491,175**	19,692,899

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

1. GENERAL INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The registered office of the Company is located at Lot 6.05, Level 6, KPMG Tower, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia. The principal place of business of the Company is located at Lot 129351, Jalan Sungai Pinang 4/19, Taman Perindustrian Pulau Indah, Selangor Halal Hub, Fasa 2C, 42920 Pulau Indah, Selangor Darul Ehsan, Malaysia.

The Company is principally engaged in investment holding activities, whilst the principal activities of its subsidiaries are as stated in Note 7 to the financial statements. There have been no significant changes in the nature of the activities during the financial year.

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities") and the Group's interest in a jointly controlled entity. The financial statements of the Company as at and for the financial year ended 31 December 2018 do not include other entities.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 8 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 Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

On 1 January 2018, the following amended MFRSs are mandatory for annual financial periods beginning on or after 1 January 2018:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)* Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfer to Investment Property*

The Directors expect that the adoption of the amended MFRSs above will have no material impact on the financial statements in the period of initial application.

The Group has not adopted the following standards that have been issued but not yet effective:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015 - 2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015 - 2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015 - 2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015 - 2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

2. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- MFRS 17, *Insurance Contracts*

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

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

The Directors expect that the adoption of the standards above will have no material impact to the financial statements in the period of initial application except as mentioned below:

<u>MFRS 16, *Leases*</u>

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease,* IC Interpretation 115, *Operating Leases -Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

MRFS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities arising for all leases with a term of more than 12 months, unless the underlying asset is of low value. Assets and liabilities arising from a lease are initially measured on a present value basis includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise the option to extend the lease period, or not terminating the lease.

Lessor accounting is substantially unchanged from the existing MFRS 117 except for MFRS 16 requires enhanced disclosure to be provided by lessor that will improve information disclosed about lessor's risk exposure, particularly to residual value risk.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. MFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early application permitted, but not before an entity applies MFRS 15. In the opinion of the Directors, there is no significant impact of MFRS 16 on its financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed under the significant accounting policies as mentioned in Note 3.

(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 financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM unless otherwise stated.

(d) Significant accounting judgements and estimates

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

2. BASIS OF PREPARATION (CONTINUED)

(d) Significant accounting judgements and estimates (continued)

Judgements made in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the Directors' assessment of the economic environment in which the entities operate and the entities' process of determining sales prices. The Directors have assessed that prices are mainly denominated and settled in the respective local currency of the entities of the Group. In addition, most of the entities' cost base is mainly denominated in their respective local currency. Therefore, the Directors concluded that the functional currency of the entities of the Group is their respective local currency.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(i) Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight-line basis over their estimated economic useful lives. The Directors estimate the useful lives of these property, plant and equipment to be within 5 to 50 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of property, plant and equipment is disclosed in Note 4.

(ii) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amount may not be recoverable. An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The value in use calculation is based on a discounted cash flow model. The Directors estimate the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of the non-financial assets are disclosed in Notes 4, 5, 7 and 8 respectively.

(iii) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

2. BASIS OF PREPARATION (CONTINUED)

(d) Significant accounting judgements and estimates (continued)

Key sources of estimation uncertainty (continued)

(iv) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax provisions already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group's domicile.

The carrying amount of current tax assets at 31 December 2018 is RM5,777,869 (2017: RM2,767,208) and RM Nil (2017: RM61,274) of the Group and of the Company, respectively.

The carrying amount of current tax liabilities at 31 December 2018 is RM736,765 (2017: RM461,130) and RM188,901 (2017: Nil) of the Group and of the Company, respectively.

The carrying amount of deferred tax assets and liabilities are disclosed in Note 9.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted, as set out below, have been consistently to the periods presented in these financial statements and have been applied consistently by the Group entities, unless otherwise stated. The Group has adopted all the new and revised standards which are effective for annual financial periods beginning as at 1 January 2018.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

(i) Financial Instruments
(ii) Revenue Recognition
(iii) Impairment Losses of Financial Instruments

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 28 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation

(i) Subsidiaries

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

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

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

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

(ii) Business combinations

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

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

(a) the fair value of the consideration transferred; plus

(b) the recognised amount of any non-controlling interests in the acquiree; plus

(c) if the business combination is achieved in stages, the fair value of the existing equity interests in the acquiree; less

(d) the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

(iii) Acquisition of non-controlling interests

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

(iv) 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 equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(v) Jointly-controlled entities

Jointly controlled entities are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution (or included in a disposal group that is classified as held for sale or distribution). The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted joint ventures, after adjustments, if any, to align the accounting policies with those of the Group, from the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted joint venture, 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 joint venture.

Investments in joint ventures are stated in the Company's statement of financial position at cost less impairment losses, unless the investment is classified as held for sale or distribution.

(vi) Non-controlling interests

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

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if that results in a deficit balance.

(vii) Transactions eliminated on consolidation

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

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

(b) Foreign currency

(i) Foreign currency transaction

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

In the consolidated financial statements, 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, foreign exchange gains and losses arising form such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

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

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combinations before 1 January 2012 (the date when the Group first adopted MFRS) which are treated as assets and liabilities of the Company. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

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

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in a joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company has elected not to restate the comparatives.

(i) Recognition and initial measurement

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

Current financial year

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

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

Previous financial year

Financial instruments was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

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

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

- Amortised cost
- Fair value through other comprehensive income – debt investments
- Fair value through other comprehensive income – equity investments
- Fair value through profit or loss

(i) *Amortised cost*

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

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

(ii) *Fair value through other comprehensive income*

(a) Debt investments

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieve by both collecting contractual cash flows and selling the debt investment, and its contractual term give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt investment is not designated as at fair value through profit or loss. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

(b) Equity investments

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iii) *Fair value through profit or loss*

All financial assets not measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This included derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces and accounting mismatch that would other arise.

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

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment.

<u>*Previous financial year*</u>

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

(i) *Financial assets at fair value through profit or loss*

Fair value through profit or loss category comprised financial assets that were held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated as effective hedging instrument) or financial assets that were specifically designated into this category upon initial recognition.

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

Other financial assets categorised as fair value through profit or loss were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(ii) *Held-to-maturity investments*

Held-to-maturity investment category comprised debt instruments that were quoted in an active market and the Group or the Company had the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments were subsequently measured at amortised cost using the effective interest method.

(iii) *Loans and receivable*s

Loans and receivables category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables were subsequently measured at amortised cost using the effective interest method.

(iv) *Available-for-sales financial assets*

Available-for-sale category comprised investment in equity and debt securities instruments that were not held for trading.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

Previous financial year (continued)

(iv) *Available-for-sales financial assets (continued)*

Investments in equity instruments that did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost. Other financial assets categorised as available-for-sale were subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which were recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method was recognised was recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (Note 3(j)(i)).

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition are as follows:

- Fair value through profit or loss
- Amortised cost

(a) *Fair value through profit or loss*

Fair value through profit or loss category comprises financial liabilities that are derivates (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as fair value through profit or loss:

(i) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;

(ii) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair values basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

(iii) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

(b) *Amortised cost*

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method (EIR).

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

<u>*Previous financial year*</u>

In the previous financial year, financial liabilities of the Group and of the Company were subsequent measured at amortised cost other than those categories as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity investments those fair values cannot be reliably measured were measured at cost.

Financial liabilities categorised as fair value through profit or loss were subsequent measured at their fair values with the gain or loss recognised in profit or loss.

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.

<u>*Current financial year*</u>

Financial guarantees issued are initially measured at fair value. Subsequently, they are measured at higher of:

- the amount of loss allowance; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance to the principles of MFRS 15, *Revenue from Contracts with Customers*.

Liabilities arising from financial guarantees are presented together with other provisions.

<u>*Previous financial year*</u>

In the previous financial year, fair value arising from financial guarantee contracts were classified as deferred income and were amortised to profit or loss using straight-line method over the contractual period or, when there was no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract was probable, an estimate of the obligation was made. If the carrying value of the financial guarantee contract was lower than the obligation, the carrying value was adjusted to the obligation amount and accounted for as a provision.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. 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 equity 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 or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Offsetting

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Costs also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Leasehold land is amortised over the remaining lease periods ranging from 56 to 79 years. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use. The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Apartments	50 years
Motor vehicles	10 years
Furniture, fittings and office equipment	5 to 10 years
Plant and machineries	10 years
Renovation	10 years
Signage	10 years

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets

(i) Finance lease

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

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

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

(ii) Operating lease

Leases where the Group does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

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

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

(f) Goodwill

Goodwill arises on business combinations are measured at cost less any accumulated impairment losses. In respect of joint venture, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill that forms part of the carrying amount of the joint venture.

Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.

(g) Investment properties

(i) Investment properties carried at cost

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include freehold land and leasehold land which in substance is a finance lease held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties. Investment properties are measured at cost are accounted for similarly to property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment properties. The cost of self-constructed investment properties includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment properties to a working condition for their intended use and capitalised borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Investment properties (continued)

(i) Investment properties carried at cost (continued)

Investment properties are derecognised on disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal.

The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 50 years for buildings and over the remaining lease periods of 76 years for leasehold land. Freehold land is not depreciated.

(ii) Determination of fair value

The Directors estimate the fair values of the Group's investment properties without the involvement of independent valuers.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

In the absence of current prices in an active market, the fair value is estimated by considering the estimated rental value of the property. A market yield is applied to the estimated rental value to arrive at the gross property valuation. When actual rents differ materially from the estimated rental value, adjustments are made to reflect actual rents.

Valuations reflect, where appropriate:

- the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness;
- the allocation of maintenance and insurance responsibilities between the Group and the lessee; and
- the remaining economic life of the property.

When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

(h) Inventories

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

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

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

(i) Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment

(i) Financial assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company elected not to restate the comparatives.

Current financial year

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

The Group and the Company measures loss allowances at an amount equal to lifetime expected credit losses, except for cash and bank balance. Loss allowances for trade receivables is always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group and the Company considers 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 historical experience and informed credit assessment and including forward-looking information, where available.

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

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

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

At each reporting date, the Group and the Company assesses whether financial assets carried at amortised are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries and jointly controlled entity) were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised. For investment in an equity instrument, a significant or prolonged decline in the fair value below its cost was an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount was estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(i) Financial assets (continued)

Previous financial year (continued)

An impairment loss in respect of loans and receivables and held-to-maturity investments was recognised in profit or loss and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets was recognised in profit or loss and was measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income was reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that was carried at cost was recognised in profit or loss and was measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale was not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed, to the extent that the asset's carrying amount did not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal was recognised in profit or loss.

(ii) Other assets

The carrying amount of other assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the cash-generating unit. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised 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 cash-generating units (groups of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(ii) Other assets (continued)

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

(k) Equity instruments

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

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(l) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

The Group's contributions to the statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Revenue and other income

(i) Revenue

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

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

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

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

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

(ii) Dividend income

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

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(iv) Finance income

Finance income is recognised as it accrues using the effective interest method in profit or loss except for finance income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(o) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

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

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amount of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

A tax incentive that is not a tax base of an asset is recognised as a reduction of tax expense in profit or loss as and when it is granted and claimed. Any unutilised portion of the tax incentive is recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

(q) Earnings per ordinary share

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

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

(r) Operating segments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Contingent liabilities

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

(t) Fair value measurements

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can assess at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

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

4. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM	Buildings RM	Apartments RM	Motor vehicles RM
Group				
Cost				
At 1 January 2017	22,801,710	26,845,956	1,088,565	4,085,067
Additions	–	–	–	905,888
Disposals	–	–	–	(644,218)
Effect of movement in exchange rates	–	(734,014)	(21,272)	(31,368)
Reclassification	–	–	–	–
At 31 December 2017/1 January 2018	**22,801,710**	**26,111,942**	**1,067,293**	**4,315,369**
Additions	–	**174,262**	–	**998,692**
Disposals	–	–	–	**(342,500)**
Effect of movement in exchange rates	–	**(620,853)**	**(17,992)**	**(33,649)**
Reclassification	–	**90,632,699**	–	–
At 31 December 2018	**22,801,710**	**116,298,050**	**1,049,301**	**4,937,912**
Accumulated depreciation				
At 1 January 2017	1,967,035	4,604,409	225,824	1,710,555
Charge for the financial year	269,714	514,044	20,665	406,052
Disposals	–	–	–	(467,058)
Effect of movement in exchange rates	–	(105,435)	(3,767)	(23,653)
At 31 December 2017/1 January 2018	**2,236,749**	**5,013,018**	**242,722**	**1,625,896**
Charge for the financial year	**269,714**	**654,784**	**20,340**	**467,158**
Disposals	–	–	–	**(342,496)**
Effect of movement in exchange rates	–	**(100,822)**	**(3,510)**	**(22,004)**
At 31 December 2018	**2,506,463**	**5,566,980**	**259,552**	**1,728,554**
Net carrying amount				
At 31 December 2017	20,564,961	21,098,924	824,571	2,689,473
At 31 December 2018	**20,295,247**	**110,731,070**	**789,749**	**3,209,358**

	Furniture, fittings and office equipment RM	Plant and machineries RM	Renovation RM	Signage RM	Capital work-in-progress RM	Total RM
	3,761,918	44,954,000	4,957,319	39,800	133,514,600	242,048,935
	308,660	1,480,447	23,742	–	33,745,362	36,464,099
	(67,027)	(43,992)	–	–	–	(755,237)
	(57,871)	(694,671)	–	–	–	(1,539,196)
	–	1,718,102	–	–	(1,718,102)	–
	3,945,680	47,413,886	4,981,061	39,800	165,541,860	276,218,601
	747,091	5,142,605	–	182,230	14,034,121	21,279,001
	(15,071)	–	–	–	–	(357,571)
	(43,503)	(603,502)	–	–	–	(1,319,499)
	5,499,737	76,276,052	314,157	23,364	(172,746,009)	–
	10,133,934	**128,229,041**	**5,295,218**	**245,394**	**6,829,972**	**295,820,532**
	2,452,828	25,614,998	3,803,231	35,634	–	40,414,514
	449,518	3,930,073	455,802	1,831	–	6,047,699
	(47,761)	(33,881)	–	–	–	(548,700)
	(38,059)	(333,764)	–	–	–	(504,678)
	2,816,526	29,177,426	4,259,033	37,465	–	45,408,835
	521,997	4,469,559	429,053	5,078	–	6,837,683
	(12,292)	–	–	–	–	(354,788)
	(31,574)	(336,028)	–	–	–	(493,938)
	3,294,657	**33,310,957**	**4,688,086**	**42,543**	**–**	**51,397,792**
	1,129,154	18,236,460	722,028	2,335	165,541,860	230,809,766
	6,839,277	**94,918,084**	**607,132**	**202,851**	**6,829,972**	**244,422,740**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Land

The lands are wholly related to leasehold land with unexpired lease period of more than 50 years.

(b) Apartments

The strata title for apartments with net carrying amount of RM172,530 (2017: RM177,519) have yet to be issued to a subsidiary.

(c) Security

Buildings with net carrying amount of RM3,919,006 (2017: RM19,971,369) have been charged to licensed banks for banking facilities granted to subsidiaries (Note 16).

Leasehold land with net carrying amount of RM18,784,368 (2017: RM19,026,941) have been charged to licensed banks for banking facilities granted to a subsidiary (Note 16).

5. INVESTMENT PROPERTIES

	Group	
	2018 RM	2017 RM
Cost		
At 1 January	**3,362,335**	3,386,598
Effect of movement in exchange rates	**(20,523)**	(24,263)
At 31 December	**3,341,812**	3,362,335
Accumulated depreciation		
At 1 January	**823,178**	773,175
Charge for the financial year	**52,689**	53,060
Effect of movement in exchange rates	**(2,955)**	(3,057)
At 31 December	**872,912**	823,178
Net carrying amount		
At 31 December	**2,468,900**	2,539,157

Represented by:

	Group	
	2018 RM	2017 RM
Freehold land	**78,000**	78,000
Leasehold land with unexpired lease period of more than 50 years	**951,753**	964,514
Buildings	**929,296**	958,273
Apartments	**509,851**	538,370
	2,468,900	2,539,157

Investment properties comprise two commercial properties and an apartment that are leased to third parties.

5. INVESTMENT PROPERTIES (CONTINUED)

The fair value of the investment properties are as follows:

	Group	
	2018 RM	2017 RM
At 31 December	**24,315,549**	14,433,160

The Group estimates the fair value of its investment properties based on the following key assumptions:

– the comparison of the Group's investment properties with similar properties that were listed for sale within the same locality or other comparable localities; or

– enquiries from relevant property valuers and real estate agents on market conditions and changing market trends.

The disclosure of fair value above was measured at the reporting date using the following method:

Significant observable inputs other than quoted prices (Level 2)

The valuation of residential investment property is based on comparable market transactions that consider sales of similar properties that have been transacted in the open market.

Significant unobservable inputs (Level 3)

The valuation of commercial property is based on market comparable approach. The significant unobservable input is yield adjustment based on Directors' assumptions. The yield adjustments are made for any difference in the nature, location or condition of the specific property.

The following are recognised in profit or loss in respect of investment properties:

	Group	
	2018 RM	2017 RM
Rental income	**464,793**	465,176
Direct operating expenses		
– income generating investment properties	**40,421**	40,852

Investment property of the Group amounting to RM1,676,621 (2017: RM1,712,153) has been charged to a licensed bank for credit facilities granted to a subsidiary (Note 16).

6. PREPAID LEASE PAYMENTS

	Group	
	2018 RM	2017 RM
Cost		
At 1 January	**3,992,520**	4,146,547
Effect of movement in exchange rates	**(130,282)**	(154,027)
At 31 December	**3,862,238**	3,992,520
Accumulated amortisation		
At 1 January	**878,353**	829,308
Charge for the financial year	**77,245**	79,850
Effect of movement in exchange rates	**(28,662)**	(30,805)
At 31 December	**926,936**	878,353
Net carrying amount		
At 31 December	**2,935,302**	3,114,167
Amount to be amortised:		
– not later than one year	**77,245**	79,850
– later than one year but not later than five years	**308,980**	319,400
– later than five years	**2,549,077**	2,714,917

The prepaid lease payments are wholly related to a leasehold land with unexpired lease period of less than 50 years. The prepaid lease payments are not transferable and have a remaining tenure of 38 (2017: 39) years.

7. INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM	2017 RM
Unquoted shares – at cost	**32,237,514**	35,140,614
Subsidiary acquired in the financial year	–	96,900
	35,237,514	35,237,514
Less: Impairment loss	**(96,900)**	(96,900)
	35,140,614	35,140,614
Capital contribution	**25,034,896**	24,502,496
	60,175,510	59,643,110

7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of subsidiaries are as follows:

Subsidiaries of the Company	Effective ownership interest 2018	Effective ownership interest 2017	Country of incorporation	Principal activities
Kawan Food Manufacturing Sdn. Bhd.	**100%**	100%	Malaysia	Manufacturing and sale of frozen food products
KG Pastry Marketing Sdn. Bhd.	**100%**	100%	Malaysia	Investment property and rental of trucks
Kawan Food Confectionery Sdn. Bhd.	**100%**	100%	Malaysia	Investment holding
***Dikawani Foods Sdn. Bhd.	**51%**	51%	Malaysia	Food truck operator
*Kawan Food (Hong Kong) Limited	**100%**	100%	Hong Kong	Trading and distribution of frozen food products
Subsidiary of Kawan Food (Hong Kong) Limited				
** Kawan Food (Nantong) Co., Ltd.	**100%**	100%	The People's Republic of China	Manufacturing and trading of frozen food delicacies

* Audited by oversea affiliate of CHENGCO PLT (formerly known as Cheng & Co)
** Not audited by CHENGCO PLT (formerly known as Cheng & Co)
*** In the progress of winding up

The capital contribution to Kawan Food (Hong Kong) Limited are interest free and are determined to form part of the Company's net investment in the subsidiary, hence are deemed as quasi-equity.

8. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group 2018 RM	Group 2017 RM
Unquoted shares – at cost	–	100,000
Share of post-acquisition reserves	–	(100,000)
	–	–

Details of the jointly controlled entity are as follows:

Jointly controlled entity	Effective ownership interest 2018	Effective ownership interest 2017	Country of incorporation	Principal activities
Hot & Go Management Sdn. Bhd. (in the progress of winding up)	**50%**	50%	Malaysia	Operation of kiosk for food and beverage

8. INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

Summary as per management accounts of the jointly controlled entity, not adjusted for the percentage of ownership by the Group:

	Group	
	2018 RM	2017 RM
Revenue (100%)	**7,486**	150,550
Net loss for the financial year (100%)	**261,283**	300,263
Total assets (100%)	**47,133**	304,928
Total liabilities (100%)	**1,782,038**	1,778,550

9. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM	2017 RM	2018 RM	2017 RM	2018 RM	2017 RM
Group						
Property, plant and equipment	–	–	**(11,204,895)**	(2,016,862)	**(11,204,895)**	(2,016,862)
Accruals	**6,889,339**	2,055,946	–	–	**6,889,339**	2,055,946
Other items	**34,210**	88,411	**(902,791)**	(920,015)	**(868,581)**	(831,604)
Deferred tax assets/(liabilities)	**6,923,549**	2,144,357	**(12,107,686)**	(2,936,877)	**(5,184,137)**	(792,520)
Set off	**(6,448,026)**	(1,737,687)	**6,448,026**	1,737,687	–	–
Net deferred tax assets/(liabilities)	**475,523**	406,670	**(5,659,660)**	(1,199,190)	**(5,184,137)**	(792,520)

Movement in temporary difference during the financial year

	At 1.1.2017 RM	Recognised in profit or loss (Note 23) RM	Recognised in other comprehensive income (Note 24) RM	At 31.12.2017/ 1.1.2018 RM	Recognised in profit or loss (Note 23) RM	Recognised in other comprehensive income (Note 24) RM	At 31.12.2018 RM
Group							
Property, plant and equipment	(2,121,640)	104,624	154	(2,016,862)	(9,187,986)	(47)	**(11,204,895)**
Accruals	2,663,485	(613,110)	5,571	2,055,946	4,838,155	(4,762)	**6,889,339**
Other items	(555,117)	(274,536)	(1,951)	(831,604)	(39,299)	2,322	**(868,581)**
	(13,272)	(783,022)	3,774	(792,520)	(4,389,130)	(2,487)	**(5,184,137)**

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Current				
Trade				
Trade receivables	**49,810,431**	46,469,434	–	–
Non-trade				
Advances to subsidiaries	–	–	**114,449,613**	104,030,886
Other receivables	**2,977,474**	2,739,830	**28,155**	54,455
	2,977,474	2,739,830	**114,477,768**	104,085,341
	52,787,905	49,209,264	**114,477,768**	104,085,341

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 60 days (2017: 30 to 60 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables of the Group is an amount of RM4,768,740 (2017: RM6,530,087) due from companies in which certain Directors have interests and held directorship.

Advances to subsidiaries

Advances to subsidiaries of RM114,449,613 (2017: RM98,750,759) are unsecured, subject to interest at BLR of 6.85%-6.99% (2017: BLR of 6.85%) and receivable on demand. The remaining advances to subsidiaries bear interest at 2.5% (2017: 2.5%) per annum are receivable as follows:

	Year of Maturity	Total RM	Less than 1 year RM	1 - 2 years RM	2 - 5 years RM
2018					
Agreement date					
22 October 2013	2018	–	–	–	–
5 December 2013	2018	–	–	–	–
		–	–	–	–

	Year of Maturity	Total RM	Less than 1 year RM	1 - 2 years RM	2 - 5 years RM
2017					
Agreement date					
22 October 2013	2018	1,831,261	1,831,261	–	–
5 December 2013	2018	3,448,866	3,448,866	–	–
		5,280,127	5,280,127	–	–

11. OTHER INVESTMENTS

	Group	
	2018 RM	2017 RM
Financial assets at fair value through profit or loss		
– held for trading : Shares (Quoted)	**173,600**	856,800
: Unit trusts (Quoted)	**2,240,245**	14,791
	2,413,845	871,591

12. INVENTORIES

	Group	
	2018 RM	2017 RM
At cost		
Raw materials	**2,952,278**	1,238,566
Packaging materials	**4,392,394**	3,377,391
Finished goods	**16,120,919**	10,594,111
	23,465,591	15,210,068
Recognised in profit or loss:		
Inventories recognised as cost of sales	**120,563,123**	112,041,593

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Deposits placed with licensed banks	**11,062,408**	15,152,360	**6,890,186**	11,652,848
Cash and bank balances	**28,396,977**	47,632,912	**5,600,989**	8,040,051
	39,459,385	62,785,272	**12,491,175**	19,692,899

Deposits placed with licensed banks of the Group and of the Company comprise placements in fixed income trusts of which RM728,601 (2017: RM5,113,184) and RM314,384 (2017: RM4,752,782) respectively are redeemable at call whereas RM10,333,807 (2017: RM10,039,176) and RM6,575,802 (2017: RM6,900,066) respectively are redeemable upon 1 day notice.

These deposits are subject to interest at rates ranging from 2.40% to 3.69% (2017: 1.62% to 3.65%) per annum.

14. SHARE CAPITAL

	Group and Company			
	Number of ordinary shares		2018	2017
			RM	RM
Issued and fully paid:				
At beginning of financial year	**359,519,760**	269,639,820	**179,759,880**	134,819,910
Allotment of shares pursuant to				
– bonus issue	–	89,879,940	–	44,939,970
At end of financial year	**359,519,760**	359,519,760	**179,759,880**	179,759,880

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

15. RESERVES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Non-distributable:				
Translation reserve	**8,830,490**	9,984,903	–	–
Distributable:				
Retained earnings	**132,874,373**	119,055,091	**7,159,924**	3,683,662
	141,704,863	129,039,994	**7,159,924**	3,683,662

Share premium

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares.

	Group and Company	
	2018 RM	2017 RM
At beginning of financial year	–	37,535,013
Bonus issue	–	(37,535,013)
At end of financial year	–	–

15. RESERVES (CONTINUED)

Translation reserve

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

	Group	
	2018 RM	2017 RM
At beginning of financial year	9,984,903	14,983,699
Foreign currency translation during the financial year	(1,154,413)	(4,998,796)
At end of financial year	8,830,490	9,984,903

16. LOANS AND BORROWINGS

	Group	
	2018 RM	2017 RM
Term loans		
Classified as:		
– non-current liabilities	**12,980,630**	16,603,132
– current liabilities	**3,622,502**	7,760,460
	16,603,132	24,363,592
Present value of term loans		
Analysed as follow:		
– not later than 1 year	**3,622,502**	7,760,460
– later than 1 year but not later than 5 years	**12,980,630**	14,490,006
– later than 5 years	–	2,113,126
	16,603,132	24,363,592

The Group's term loans which are secured over leasehold lands and buildings of subsidiaries, are subject to interest at rates ranging from 4.03% to 5.11% (2017: 3.85% to 4.55%) per annum (Notes 4 and 5).

17. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Trade				
Trade payables	**16,263,372**	15,178,421	–	–
Non-trade				
Other payables	**3,061,033**	3,987,790	**239**	8,763
Accruals	**13,131,496**	13,967,864	**55,925**	45,570
	16,192,529	17,955,654	**56,164**	54,333
	32,455,901	33,134,075	**56,164**	54,333

Trade payables

(i) Credit terms of trade payables are ranging from 30 to 60 (2017: 30 to 60) days.

(ii) Included in trade payables of the Group is an amount of RM4,330,925 (2017: RM3,804,618) due to companies in which certain Directors have interests.

18. REVENUE

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Revenue from contracts with customers	**199,942,904**	196,240,105	–	–
Other revenue				
– rental of property	**42,000**	42,000	–	–
– dividends	–	–	**7,876,000**	5,000,000
	199,984,904	196,282,105	**7,876,000**	5,000,000
Revenue from contracts with customers in primary geographical markets				
Malaysia	**81,183,284**	76,332,454	**7,876,000**	5,000,000
North America	**53,216,280**	58,722,735	–	–
Rest of Asia	**38,159,076**	34,257,847	–	–
Europe	**16,203,895**	16,297,320	–	–
Oceania	**10,756,713**	10,160,675	–	–
Africa	**465,656**	511,074	–	–
	199,984,904	196,282,105	**7,876,000**	5,000,000
Timing of recognition				
At a point in time	**199,984,904**	196,282,105	**7,876,000**	5,000,000

18. REVENUE (CONTINUED)

Nature of goods	Timing of recognition	Significant payment terms	Variable element in consideration	Obligation for returns or refund	Warranty
Frozen food products	Revenue is recognised upon transfer of significant risk and rewards of ownership of the goods to the customer.	Local sales: Credit period of 30 to 60 days from invoice date Export sales: TT at sight and TT 60 days from B/L date	Not applicable	Not applicable	Not applicable
Rental of property	Revenue is recognised based on the consideration specified in a rental agreement with a tenant.	On or before 10th of each calendar month.	Not applicable	Upon expiry of rental agreement, security deposit is refundable after deduct unpaid rent, repairs for damage other than normal wear and tear or earlier termination by any parties.	Not applicable

19. OTHER INCOME

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Gain on foreign exchange				
– realised	–	1,975,800	–	1,975,800
– unrealised	**1,042,854**	381,726	**822,353**	–
Rental income	**474,830**	423,176	–	–
Other income	**416,944**	528,732	–	–
	1,934,628	3,309,434	**822,353**	1,975,800

20. PROFIT BEFORE TAX

Profit before tax is arrived at:

		Group		Company	
	Notes	2018 RM	2017 RM	2018 RM	2017 RM
After charging:					
Auditors' remuneration					
– audit fee					
: CHENGCO PLT (formerly known as Cheng & Co)		**127,900**	123,900	**42,000**	40,000
: Oversea affiliate of CHENGCO PLT (formerly known as Cheng & Co)		**44,914**	44,056	–	–
: Other auditors		**58,856**	59,100	–	–
– non–audit fee					
: CHENGCO PLT (formerly known as Cheng & Co)		**2,500**	2,500	**2,500**	2,500
Amortisation of prepaid lease payments	6	**77,245**	79,850	–	–
Depreciation of investment properties	5	**52,689**	53,060	–	–
Depreciation of property, plant and equipment	4	**6,837,683**	6,047,699	–	–
Trade receivable written off		**48,801**	–	–	–
Other receivable written off		**604,001**	–	–	–
Inventories written off		**780,532**	818,835	–	–
Personnel expenses (including key management personnel)					
– wages, salaries and others		**29,557,084**	23,903,132	**29,000**	29,000
– contributions to State Plans		**2,576,673**	2,290,798	–	–
Rental expenses in respect of					
– coldroom		**598,259**	1,613,246	–	–
– equipment		**34,200**	126,529	–	–
– hostel		**70,060**	89,620	–	–
Fair value through profit or loss					
– held for trading		**683,200**	–	–	–
Unrealised foreign exchange loss		–	1,371,188	–	6,051,921
Realised foreign exchange loss		–	1,218,577	**281,783**	–
Loss on disposal of property, plant and equipment		**2,779**	87,433	–	–

20. PROFIT BEFORE TAX (CONTINUED)

	Notes	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
And crediting:					
Gain on disposal of property, plant and equipment		**50,996**	–	**–**	–
Fair value through profit or loss – held for trading		**–**	179,200	**–**	–
Unrealised foreign exchange gain		**243,339**	–	**822,353**	–
Realised foreign exchange gain		**781,371**	–	**–**	1,975,800
Rental income from investment properties		**422,793**	423,176	**–**	–
Rental income from hostel		**99,850**	99,150	**–**	–

21. FINANCE INCOME

	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
Interest income of financial assets calculated using the effective interest method that are:				
– at amortised cost	**655,352**	710,293	**7,191,766**	6,119,625

22. FINANCE COSTS

	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
Interest expense of financial liabilities that are not at fair value through profit or loss:				
Term loans, secured	**832,661**	1,084,777	**–**	–
Other bank charges	**213,845**	227,629	**345**	1,310
	1,046,506	1,312,406	**345**	1,310
Recognised in profit or loss	**626,876**	387,735	**345**	1,310
Capitalised on qualifying assets:				
– property, plant and equipment	**419,630**	924,671	**–**	–
	1,046,506	1,312,406	**345**	1,310

23. TAX EXPENSE

Major components of tax expense

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Current tax				
Malaysia				
– current	**1,814,838**	5,597,160	**1,543,786**	1,018,726
– (over)/under provision in prior financial years	**(605,828)**	(1,022,975)	**201,389**	(3,367)
Overseas				
– current	**782,173**	1,480,393	**–**	–
– under provision in prior financial years	**56,985**	108,618	**–**	–
	2,048,168	6,163,196	**1,745,175**	1,015,359
Deferred tax				
Original and reversal of temporary differences	**4,416,995**	686,706	**–**	–
(Over)/under provision in prior financial years	**(27,865)**	99,921	**–**	–
Effect of changes in tax rate	**–**	(3,605)	**–**	–
	4,389,130	783,022	**–**	–
Total tax expense	**6,437,298**	6,946,218	**1,745,175**	1,015,359

Reconciliation of effective tax expense

The numerical reconciliations between the tax expense and the product of accounting results multiplied by the applicable tax rates are as follows:

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Net profit for the financial year	**22,807,277**	29,106,471	**12,464,257**	4,558,086
Tax expense	**6,437,298**	6,946,218	**1,745,175**	1,015,359
Profit before tax	**29,244,575**	36,052,689	**14,209,432**	5,573,445
Income tax calculated using Malaysian tax rate of 24% (2017: 24%)	**7,018,698**	8,652,646	**3,410,264**	1,337,627
Effect of reduction in Malaysian statutory tax rate	**(4,117)**	(232,223)	**–**	(222,938)
Effect of tax rate in foreign jurisdiction	**(224,511)**	(446,592)	**–**	–
Non-deductible expenses	**1,872,219**	2,543,279	**1,146,452**	2,113,773
Non-taxable income	**(1,222,619)**	(2,052,634)	**(1,039,978)**	(1,097,338)
Tax exempt income	**(147,343)**	82,414	**(1,972,952)**	(1,112,398)
Tax incentives	**–**	(167,241)	**–**	–
Double deduction on qualifying expenditure	**(374,541)**	(561,731)	**–**	–
Effect of changes in tax rate	**–**	(3,605)	**–**	–
Other items	**96,220**	(53,659)	**–**	–
	7,014,006	7,760,654	**1,543,786**	1,018,726
(Over)/under provision:				
– current tax	**(548,843)**	(914,357)	**201,389**	(3,367)
– deferred tax	**(27,865)**	99,921	**–**	–
	6,437,298	6,946,218	**1,745,175**	1,015,359

23. TAX EXPENSE (CONTINUED)

Reconciliation of effective tax expense (continued)

For years of assessment 2017 and 2018, the Malaysian statutory tax rate is being reduced by 1% to 4%, based on the prescribed incremental percentage of chargeable income from business, compared to that of the immediate preceding year of assessment. The Group and the Company have accounted for the reduction in the tax rate in the current financial year, based on the percentage of increase in chargeable income of the Company and its subsidiaries.

24. OTHER COMPREHENSIVE INCOME

	2018			2017		
	Before tax RM	Tax expense RM	Net of tax RM	Before tax RM	Tax expense RM	Net of tax RM
Foreign currency translation differences for foreign operations – (loss)/gain arising during the financial year	(1,151,926)	(2,487)	(1,154,413)	**(5,002,570)**	**3,774**	**(4,998,796)**

25. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2018 was based on the profit attributable to owners of the Company of RM22,807,277 (2017: RM29,106,471) and a weighted average number of ordinary shares outstanding of 359,519,760 (2017: 359,519,760).

Diluted earnings per ordinary share

As at 31 December 2018, there is no diluted earnings per ordinary share as the Company does not have any dilutive potential ordinary shares.

26. DIVIDENDS

	Sen per share	RM	Date of payment
Group and Company			
2018			
Interim 2018 ordinary – single tier	2.5	**8,987,995**	30 March 2018
2017			
Interim 2017 ordinary – single tier	2.5	6,740,999	31 March 2017

27. OPERATING SEGMENTS

The accounting policies of the reportable segments are as described in Note 3(r).

The Group's reportable segments are organised in accordance with the Group entities, which are the Group's strategic business units. The strategic business units offer products to different markets and are managed separately because they require different marketing strategies. For each of the strategic business units, the Group's Managing Director (the chief operating decision maker) reviews Internal Management Reports at least on a quarterly basis.

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group's Managing Director, who is the Group's chief operating decision maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total of segment assets is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group's Managing Director. Segment total assets are used to measure the return on assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provide regularly to the Managing Director. Hence no disclosure is made on segment liabilities.

Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire property, plant and equipment, investment properties and intangible assets other than goodwill.

	Manufacturing & trading	
	2018 RM	**2017 RM**
Group		
Reporting segment profit	**44,038,187**	43,536,118
Included in the measure of segment profit are:		
– revenue from external customer	**199,984,904**	196,282,105
– inter-company revenue	**119,953,291**	113,098,370
Not included in the measure of reporting segment profit but provided to Managing Director:		
– depreciation and amortisation	**(6,967,617)**	(6,180,609)
– finance costs	**(8,006,416)**	(6,478,330)
– finance income	**8,038,239**	6,798,030
– income tax expense	**(6,475,109)**	(7,076,266)
Segment assets		
Included in the measure of segment assets are:		
– additions to non-current assets other than financial instruments and deferred tax assets	**21,279,001**	36,464,099

27. OPERATING SEGMENTS (CONTINUED)

Reconciliation of reportable segment revenues, profit or loss, assets and other material items

	Group	
	2018 RM	2017 RM
Profit or loss		
Total profit or loss for reportable segments	**44,038,183**	43,536,118
Elimination of inter-segment profits	**(7,854,467)**	(1,625,378)
Depreciation and amortisation	**(6,967,617)**	(6,180,609)
Finance income	**655,352**	710,293
Finance costs	**(626,876)**	(387,735)
Consolidated profit before tax	**29,244,575**	36,052,689

	External revenue RM	Depreciation and amortisation RM	Finance costs RM	Finance income RM	Segment assets RM
2018					
Total reportable segments	**319,938,195**	**(6,967,617)**	**(8,006,416)**	**8,038,239**	**595,311,383**
Elimination of inter-segment transaction or balances	**(119,953,291)**	**–**	**7,379,540**	**(7,382,887)**	**(218,391,182)**
Consolidated total	**199,984,904**	**(6,967,617)**	**(626,876)**	**655,352**	**376,920,201**
2017					
Total reportable segments	309,380,475	(6,180,609)	(6,478,330)	6,798,030	580,552,893
Elimination of inter-segment transaction or balances	(113,098,370)	–	6,090,595	(6,087,737)	(212,595,032)
Consolidated total	196,282,105	(6,180,609)	(387,735)	710,293	367,957,861

Geographical segments

The manufacturing of frozen food products is carried out solely in Malaysia and China.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Geographical information

The geographical information is shown in Note 18.

Major customers

The Group has one (2017: one) major customer contributing revenue greater than 10% of the Group's total revenue.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

(a) Fair value through profit or loss ("FVTPL")

– Mandatorily required by MFRS 9
– Designated upon initial recognition ("DUIR")

(b) Amortised cost ("AC")

(c) Fair value through other comprehensive income ("FVOCI")

– Equity instrument designated upon initial recognition ("EIDUIR")
– Debt instrument ("DI")

	Carrying amount RM	AC RM	FVTPL RM
2018			
Financial assets			
Group			
Other investments	2,413,845	–	2,413,845
Trade and other receivables	52,787,905	52,787,905	–
Cash and cash equivalents	39,459,385	39,459,385	–
	94,661,135	92,247,290	2,413,845
Company			
Trade and other receivables	114,477,768	114,477,768	–
Cash and cash equivalents	12,491,175	12,491,175	–
	126,968,943	126,968,943	–
Financial liabilities			
Group			
Loans and borrowings	(16,603,132)	(16,603,132)	–
Trade and other payables	(32,455,901)	(32,455,901)	–
	(49,059,033)	(49,059,033)	–
Company			
Trade and other payables	(56,164)	(56,164)	–

28. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

(a) Loans and receivable ("L&R")

(b) Fair value through profit or loss ("FVTPL")

– Held for trading ("HFT")
– Designated upon initial recognition ("DUIR")

(c) Available-for-sale financial assets ("AFS")

(d) Held-to-maturity investments ("HTM")

(e) Financial liabilities measured at amortised cost ("FL")

	Carrying amount RM	L&R (FL) RM	FVTPL (HFT) RM
2017			
Financial assets			
Group			
Other investments	871,591	–	871,591
Trade and other receivables	49,209,264	49,209,264	–
Cash and cash equivalents	62,785,272	62,785,272	–
	112,866,127	111,994,536	871,591
Company			
Trade and other receivables	104,085,341	104,085,341	–
Cash and cash equivalents	19,692,899	19,692,899	–
	123,778,240	123,778,240	–
Financial liabilities			
Group			
Loans and borrowings	(24,363,592)	(24,363,592)	–
Trade and other payables	(33,134,075)	(33,134,075)	–
	(57,497,667)	(57,497,667)	–
Company			
Trade and other payables	(54,333)	(54,333)	–

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
  – currency risk
  – interest rate risk
  – price risk

<u>Credit risk</u>

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers. The Company's exposure to credit risk arises principally from loans and advances to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries.

(i) Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally financial guarantees given by banks, shareholders or directors of customers are obtained, and credit evaluations are performed on customers requiring credit over a certain amount.

At each reporting date, the Group or the Company assesses whether any of the trade receivables and contract assets are credit impaired.

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

There are no significant changes as compared to previous financial year.

Exposure to credit risk, credit quality and collateral

At the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amount in the statements of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Credit risk (continued)

(i) Receivables (continued)

Concentration of credit risk

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

	Group	
	2018 RM	2017 RM
Malaysia	**16,277,547**	15,869,935
North America	**16,780,600**	13,630,888
Europe	**4,264,478**	5,745,199
Rest of Asia	**7,539,541**	7,252,727
Oceania	**4,571,481**	3,888,094
Africa	**376,784**	82,591
	49,810,431	46,469,434

At the end of the reporting period, the Group has no significant concentration of credit risk except for the amount due from one customer (2017: one customer) representing 19% (2017: 10%) of total trade receivables of the Group. The Group does not anticipate the carrying amount recorded at the end of each reporting period to be significantly different from the value that would eventually be received.

Recognition and measurement of impairment losses

In managing credit of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, trade receivables will pay within 90 days. The Group's debt recovery process is as follows:

(a) Above 90 days past due after credit term, the Group will start to initiate a structured debt recovery process which is monitored by the sales management team; and
(b) Above 365 days past due, the Group will commence a legal proceeding against the customer.

The Group uses an allowance matrix to measure Expected Credit Losses (ECLs) of trade receivables for all segments except for construction segment. Consistent with the debt recovery process, invoices which are past due 90 days will be considered as credit impaired.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to 90 days past due.

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018 which are grouped together as they are expected to have similar risk nature.

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Credit risk (continued)

(i) Receivables (continued)

Recognition and measurement of impairment losses (continued)

	Gross carrying amount RM	Loss allowance RM	Net balance RM
Group			
2018			
Not past due	**34,598,234**	–	**34,598,234**
1 - 30 days past due	**7,216,061**	–	**7,216,061**
31 - 90 days past due	**4,733,160**	–	**4,733,160**
More than 90 days past due	**3,262,976**	–	**3,262,976**
	49,810,431	–	**49,810,431**

Comparative information under MFRS 139, (Financial Instruments; Recognition and Measurement)

The aging of trade receivables as at 31 December 2017 was as follows:

	Gross carrying amount RM	Loss allowance RM	Net balance RM
2017			
Not past due	34,414,573	–	34,414,573
1 - 30 days past due	5,206,054	–	5,206,054
31 - 90 days past due	2,671,998	–	2,671,998
More than 90 days past due	4,176,809	–	4,176,809
	46,469,434	–	46,469,434

For balances which are past due but not impaired, management is monitoring individual balances closely and is confident of repayment based on subsequent collections after year end and past repayment trends of these customers.

(ii) Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to subsidiaries. The Company monitors the ability of the subsidiaries to service their loans on an individual basis.

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk of the Company amounts to RM16,603,132 (2017: RM24,363,592) representing the outstanding loan amount of the subsidiaries at the end of the reporting period.

At the end of the reporting period, there was no indication that the subsidiaries would default on repayment. The financial guarantees have not been recognised since the fair value on initial recognition was not material.

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Credit risk (continued)

(iii) Inter-company loans and advances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured advances to its subsidiaries. The Company monitors the ability of the subsidiaries to repay loans and advances on an individual basis.

Exposure to credit risk, credit quality and collateral

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

Loans and advances provided are not secured by any collateral or supported by any other credit enhancements.

Advances are only provided to subsidiaries which are wholly owned by the Company.

Recognition and measurement of impairment losses

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

- The subsidiary is unlikely to repay its loan or advance to the Company in full;
- The subsidiary's loan or advance is overdue for more than 365 days; or
- The subsidiary is continuously loss making and is having a deficit shareholders' fund

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

As at the end of the reporting period, there was no indication that the advances to the subsidiaries are not recoverable.

(iv) Cash and cash equivalents

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

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

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Liquidity risk

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

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

Maturity analysis

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

	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Less than 1 year RM	1 - 2 years RM	2 - 5 years RM	More than 5 years RM
2018							
Group							
Secured term loans	**16,603,132**	**4.03%–5.11%**	**18,292,311**	**4,288,612**	**4,109,310**	**9,894,389**	**–**
Trade and other payables	**32,455,901**		**32,455,901**	**32,455,901**	**–**	**–**	**–**
	49,059,033		**50,748,212**	**36,744,513**	**4,109,310**	**9,894,389**	**–**
Company							
Trade and other payables	**56,164**		**56,164**	**56,164**	**–**	**–**	**–**
2017							
Group							
Secured term loans	24,363,592	3.85%–4.55%	26,821,933	8,556,499	4,263,199	11,858,998	2,143,237
Trade and other payables	33,134,075		33,134,075	33,134,075	–	–	–
	57,497,667		59,956,008	41,690,574	4,263,199	11,858,998	2,143,237
Company							
Trade and other payables	54,333		54,333	54,333	–	–	–

Market risk

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

(i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar ("USD"), Singapore Dollar ("SGD"), Euro Dollar ("EURO") and Renminbi ("RMB").

Risk management objectives, policies and processes for managing the risk

The Group manages its foreign currency exposure by matching as far as possible receipts and payments in each individual currency. The Group's exposure to foreign currency risk is monitored on an ongoing basis. The Group enters into forward exchange contracts in the normal course of business, where appropriate, to manage its exposure against foreign currency fluctuations on sales and purchases transactions denominated in foreign currencies.

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Market risk (continued)

(i) Currency risk (continued)

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amount at the end of the reporting period was:

	RM (Denominated in USD)	RM (Denominated in SGD)	RM (Denominated in EURO)	RM (Denominated in RMB)
Group				
2018				
Trade and other receivables	**3,200,405**	**(123,666)**	–	–
Cash and cash equivalents	**13,859,767**	**1,352,852**	**800,240**	**182,551**
Trade and other payables	**(1,263,670)**	–	–	–
	15,796,502	**1,229,186**	**800,240**	**182,551**
2017				
Trade and other receivables	3,431,134	(158,563)	–	–
Cash and cash equivalents	20,468,155	519,376	1,138,414	107,150
Trade and other payables	(995,270)	–	–	–
	22,904,019	360,813	1,138,414	107,150

Company

(Denominated in USD)

	2018 RM	2017 RM
Advances to a subsidiary	–	5,280,127
Cash and cash equivalents	**5,491,911**	8,040,051
	5,491,911	13,320,178

Currency risk sensitivity analysis

A 10% strengthening of the following currencies against the RM at the end of the reporting period would have increased/(decreased) equity and post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Company	
	Equity RM	Profit RM	Equity RM	Profit RM
2018				
USD	**6,296,382**	**1,200,534**	**417,385**	**417,385**
SGD	**60,818**	**60,818**	–	–
EURO	**93,418**	**93,418**	–	–
RMB	**649,656**	**13,874**	–	–
	7,100,274	**1,368,644**	**417,385**	**417,385**

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Market risk (continued)

(i) Currency risk (continued)

Currency risk sensitivity analysis (continued)

	Group		Company	
	Equity RM	Profit RM	Equity RM	Profit RM
2017				
USD	7,360,846	1,740,705	1,012,334	1,012,334
SGD	27,422	27,422	–	–
EURO	86,519	86,519	–	–
RMB	550,162	8,143	–	–
	8,024,949	1,862,789	1,012,334	1,012,334

A 10% weakening of the above currencies against the RM at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of changes in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group's exposure to interest rate risk mainly arises from its short term funds, fixed deposits and borrowings and is managed through effective negotiation with financial institutions for best available rates.

Exposure to interest rate risk

The interest rate profile of the Group's and the Company's interest-bearing financial instruments, based on carrying amount at the end of the reporting period were:

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Fixed rate instruments				
Financial assets	–	–	–	5,280,127
Financial liabilities	–	(4,137,959)	–	–
Floating rate instruments				
Financial assets	**11,062,408**	15,152,360	**121,339,799**	110,403,607
Financial liabilities	**(16,603,132)**	(20,225,633)	–	–

28. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

As changes in interest rates at the end of the reporting period would not have a significant effect on the Group's profit and equity, sensitivity analysis is not presented.

(iii) Price risk

Price risk is the risk that the fair value or future cash flow of the financial statements will fluctuate because of changes in market prices (other than currency or interest rate).

The Group and the Company is exposed to equity securities price risk arising from the investments held by the Group and the Company which are classified on the statements of financial position as fair value to profit or loss/held for trading. These securities are listed in Malaysia. The Group and the Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio.

A 5% (2017: 5%) decreased in share price at the end of the reporting period would have decreased profit by RM8,680 (2017: RM42,840) for quoted investments classified as fair value through profit or loss. A 5% (2017: 5%) increased in share price would have had equal but opposite effect on equity and profit respectively.

(c) Fair values of financial instruments

(i) Financial assets and liabilities measured at fair value

	Level 1 RM	Level 2 RM	Level 3 RM
Group			
2018			
Financial assets			
Unit trusts (Quoted)	**2,240,245**	–	–
Shares (Quoted)	**173,600**	–	–
2017			
Financial assets			
Unit trusts (Quoted)	14,791	–	–
Shares (Quoted)	856,800	–	–

The fair values of these financial assets that are quoted in an active market are determined by reference to the quoted closing bid price at the end of the reporting period.

28. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values of financial instruments (continued)

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amount are not a reasonable approximation of fair value

The fair values of other financial assets and liabilities, together with the carrying amount shown in the statements of financial position, are as follows:

	2018		2017	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Company				
Advances to subsidiaries (fixed rate)	–	–	5,280,127	3,783,347

The fair value is estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending or borrowing arrangements at reporting date.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amount are a reasonable approximation of fair value

The Group's financial assets and liabilities include cash and cash equivalents, trade and other receivables, trade and other payables, loans and borrowings.

The carrying amount of these financial assets and liabilities are reasonable approximation of fair values, because these are short term in nature or that they are floating rate instruments that are repriced to market interest rates on or near to the end of the reporting period.

29. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and determine to maintain an optimal debt-to-equity ratio that complies with regulatory requirements.

The Group manages its capital based on debt-to-equity ratio. The debt-to-equity ratio is calculated as net debt divided by equity attributable to owners of the Company. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and cash equivalents.

29. CAPITAL MANAGEMENT (CONTINUED)

The debt-to-equity ratio of the Group at the end of the reporting period is as follows:

	Group	
	2018 RM	2017 RM
Loans and borrowings	**16,603,132**	24,363,592
Trade and other payables	**32,455,901**	33,134,075
	49,059,033	57,497,667
Less: Cash and cash equivalents	**(39,459,385)**	(62,785,272)
Net debt	**9,599,648**	(5,287,605)
Equity attributable to owners of the Company	**321,464,743**	308,799,874
Debt-to-equity ratio	**2.99%**	*

* not meaningful

There was no change in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than 25% of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40m. The Company has complied with this requirement.

The Group and the Company is not subject to any externally imposed capital requirement.

30. CAPITAL COMMITMENTS

	Group	
	2018 RM	2017 RM
<u>Capital expenditure commitments</u>		
Property, plant and equipment		
Contracted but not provided for: Within one year	**5,506,143**	21,974,440

31. DIRECTORS' REMUNERATION

The aggregate amounts of remuneration received and receivable by the Directors of the Group and of the Company during the financial year are as follows:

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Executive Directors				
Fees	**292,750**	301,000	**292,750**	301,000
Salaries and bonuses	**2,415,424**	2,848,619	**–**	–
Defined contribution benefits	**274,958**	291,221	**–**	–
Benefits-in-kind	**86,125**	79,708	**–**	–
Meeting allowances (note)	**29,000**	29,000	**29,000**	29,000
	3,098,257	3,549,548	**321,750**	330,000
Non-Executive Directors				
Fees	**429,409**	466,000	**429,409**	466,000
Meeting allowances (note)	**71,575**	67,000	**71,575**	67,000
	500,984	533,000	**500,984**	533,000
	3,599,241	4,082,548	**822,734**	863,000

The number of Directors of the Company whose income falls within the following bands are:

	Executive Directors		Non-Executive Directors	
	2018	2017	2018	2017
RM150,000 and below	**–**	–	**6**	6
RM500,001 to RM1,000,000	**4**	3	**–**	–
RM1,000,001 and above	**–**	1	**–**	–
Total	**4**	4	**6**	6

Note:

Meeting allowances vary from one Director to another, depending on the number of committees they sit on and the number of meetings attended during the financial year.

32. RELATED PARTIES

Identity of related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third party and the other entity is an associate of the third party.
- The entity is a post-employment benefit plan for the benefit of employees of either the Company or entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- The entity is controlled or jointly controlled by a person identified in (a).
- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the Company).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

The Group has related party relationship with its subsidiaries, jointly controlled entity, companies which certain directors have interest and key management personnel.

32. RELATED PARTIES (CONTINUED)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Notes 10 and 17.

	Group		Company	
	2018 RM	2017 RM	2018 RM	2017 RM
Subsidiaries				
Interest income on loans	–	–	**6,965,474**	5,691,737
Jointly controlled entity				
Sale of goods	–	38,148	–	–
Other related party transaction				
Companies in which Directors of the Company have interest:				
Sale of goods	**26,904,457**	16,864,043	–	–
Companies in which persons related to Directors of the Company have interest:				
Sale of goods	**2,635,000**	2,573,507	–	–
Purchase of goods	**20,591,713**	16,691,861	–	–
Key management personnel				
Executive Directors:				
– Fees	**292,750**	301,000	**292,750**	301,000
– Remuneration	**2,415,424**	2,848,619	–	–
– Defined contribution plans	**274,958**	291,221	–	–
– Benefits–in–kind	**86,125**	79,708	–	–
– Meeting allowances	**29,000**	29,000	**29,000**	29,000
	3,098,257	3,549,548	**321,750**	330,000
Other key management personnel:				
– Short term employee benefits	**4,703,237**	4,157,125	–	–
– Defined contribution plans	**441,861**	336,771	–	–
– Benefits-in-kind	**16,400**	16,400	–	–
	5,161,498	4,510,296	–	–
Total compensation paid to key management personnel	**8,259,755**	8,059,844	**321,750**	330,000

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly.

33. CONTINGENCIES

Guarantees

	Company	
	2018 RM	2017 RM
Corporate guarantees given by the Company to licensed banks for banking facilities granted to subsidiaries	**82,115,000**	95,850,000

34. SIGNIFICANT EVENTS SUBSEQUENT TO THE REPORTING DATE

Declaration of Interim Single Tier Dividend

On 4 March 2019, the Company declared an interim single tier dividend of 2.5 sen per ordinary share in respect of the financial year ending 31 December 2019.

LIST OF PROPERTIES

	Location/ Title details	Description/ Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area/ Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
*	Held under H.S. (D) No. 135852, PT129351, Mukim dan Daerah Klang, Negeri Selangor, with address at Lot 96, Section 4, Phase 2C, Selangor Halal-Hub, Pulau Indah, Selangor Darul Ehsan	Factory cum office	Leasehold interest for a term of 99 years expiring on 24 February 2097	1 year	12 October 2011	63,079.9 sq. metres/ 49,404.82 sq.metres	18 May 2018	104,076,746
*	Held under H.S. (D) No. 98527, Bandar Shah Alam, Daerah Petaling, Negeri Selangor, with address at Lot 20, Jalan Pengapit 15/19, 40200 Shah Alam, Selangor Darul Ehsan	Factory cum office	Leasehold interest for a term of 99 years expiring on 6 August 2074	39 years	28 May 2004	7,337.24 sq. metres/ 6,417.91 sq. metres	23 May 2007	5,161,642
**	Held under PTD No. 59709 H.S. (D) 207237 Mukim of Tebrau, Negeri Johor with address at No.52, Jalan Mutiara Emas 5/12, Taman Mount Austin, 81100 Johor Bahru, Johor Darul Takzim	Factory cum office	Freehold	20 years	31 May 2005	289.86 sq. metres/ 254 sq. metres	2 November 1998	282,428
*	Held under H.S. (D) 98490, P.T. No. 617, Seksyen 16, Bandar Shah Alam, Negeri Selangor, with address at Lot 4, Jalan Lada Hitam 16/12A, 40000 Shah Alam, Selangor Darul Ehsan	Factory cum office	Leasehold interest for a term of 99 years expiring on 20 July 2094	29 years	28 June 1999	4,484 sq. metres/ 3,149.43 sq. metres	24 September 1990	1,676,622
*	Held under H.S. (D) 98500 for P.T. No. 714, Seksyen 16, Bandar Shah Alam, Negeri Selangor, with address at Lot 2A, Persiaran Kemajuan, Seksyen 16, 40000 Shah Alam, Selangor Darul Ehsan	Factory cum office	Leasehold interest for a term of 99 years expiring on 20 July 2094	29 years	25 May 2005	21,796 sq. metres/ 3,584.91 sq. metres	7 May 1990	6,809,083

	Location/ Title details	Description/ Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area/ Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
*	Parcel No. 2F-41C with address at 41C-2F, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan Held under Master Title H.S. (D) 56067 PT 59174 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	19 years	16 May 2003	67.85 sq. metres	27 March 2003	44,689
*	Parcel No. 2B-41D with address at 41D-2B, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan Held under Master Title H.S. (D) 56067 PT 59174 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	19 years	29 July 2003	67.85 sq.metres	27 March 2003	41,576
*	Parcel No. 2F-31C with address at 31C-2F, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan Held under Master Title H.S. (D) 56062 PT 59169 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	19 years	16 May 2003	67.85 sq. metres	27 March 2003	44,689
*	Parcel No. 2B-21D with address at 21D-2B, Jalan Datuk Dagang 31, Taman Sentosa, 41200 Klang, Selangor Darul Ehsan Held under Master Title H.S. (D) 56057 PT 59164 in the Mukim of Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	19 years	29 July 2003	67.85 sq. metres	27 March 2003	41,576

	Location/ Title details	Description/ Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area/ Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
*	Shop Apartment Parcel No. B3/3F with address at 57-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan Held under Strata Title H.S. (D) 67208 Lot No. P.T. No. 65663 in the Mukim Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	18 years	21 February 2001	69.52 sq. metres	26 October 2004	39,497
*	Shop Apartment Parcel No. B4/3F with address at 55-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan Held under Strata Title H.S. (D) 67207 Lot No. P.T. No. 65652 in the Mukim Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	18 years	21 February 2001	69.52 sq. metres	26 October 2004	39,497
*	Shop Apartment Parcel No. D4/3F with address at 57-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan Held under Strata Title H.S. (D) 67208 Lot No. P.T. No. 65663 in the Mukim Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	18 years	21 February 2001	69.52 sq. metres	26 October 2004	39,497
*	Shop Apartment Parcel No. D3/3F with address at 55-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan Held under Strara Title H.S. (D) 67207 Lot No. P.T. No. 65652 in the Mukim Klang, District of Klang, State of Selangor Darul Ehsan	Shop apartment occupied as staff hostel	Freehold	18 years	21 February 2001	69.52 sq. metres	26 October 2004	39,497

	Location/ Title details	Description/ Existing use	Tenure of Lease	Approx. age of building	Date of Acquisition	Approx. Land Area/ Built-up Area	Issuance of Certificate of Fitness	Net Book Value RM
*	Shop Apartment Parcel No. D2/3F with address at 57-3A, Jalan Bendahara 13, Taman Sri Sentosa, Jaya Business Park, 41200 Klang, Selangor Darul Ehsan Held under Strata Title H.S. (D) 67208 Lot No. P.T. No. 65663 in the Mukim Klang, District of Klang, State of Selangor darul Ehsan	Shop apartment occupied as staff hostel	Freehold	18 years	21 February 2001	69.52 sq. metres	26 October 2004	39,497
***	Industrial Land at 13, Kexing Road North, Nantong Economic & Technology Development Area ("NETDA"), China Held under Lot No. 03-10-(001)-338, Land Registry No. 35.45-92.10	Factory cum office	Leasehold interest for a term of 50 years expiring on 25 December 2056	9 years	26 December 2006	40,773.90 sq. metres/16,000 sq. metres	N/A	18,179,605
***	Apartment at Unit 306, Building No. 11, 107 Xinkai Road, NETDA, Jiangsu Province, 226009 China	Apartment	Leasehold interest for a term of 70 years expiring on 19 August 2074	12 years	19 January 2007	223.44 sq. metres	N/A	419,738
***	Apartment at Unit 2904Building No. 9, Zhongnan Century City, Chongchuan District, Nantong, Jiangsu Province, 226009 China	Apartment	Leasehold interest for a term of 75 years expiring on 1 April 2075	9 years	30 December 2006	179.42 sq. metres	N/A	509,851

* Held under Kawan Food Manufacturing Sdn. Bhd.
** Held under KG Pastry Marketing Sdn. Bhd.
*** Held under Kawan Food (Nantong) Co., Ltd.

ANALYSIS ON SHAREHOLDINGS

as per record of depositors as at 29 March 2019

Issued Share Capital : RM 179,759,880.00 comprising 359,519,760 ordinary shares
Class of Shares : Ordinary Shares
Voting Rights : One (1) vote per Ordinary Share

DISTRIBUTION OF SHAREHOLDERS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
Less than 100	171	8.64	4,375	0.00
100 – 1,000	755	38.19	293,830	0.09
1,001 – 10,000	624	31.56	2,646,387	0.73
10,001 – 100,000	278	14.06	9,478,760	2.64
100,001 to less than 5% of issued shares	146	7.39	176,402,026	49.07
5% and above of issued shares	3	0.15	170,694,382	47.78
Total	**1,977**	**100.00**	**359,519,760**	**100.00**

SUBSTANTIAL SHAREHOLDERS

as per Register of Substantial Shareholders as at 29 March 2019

	Direct		Indirect	
Name of Substantial Shareholders	No. of Shares	%	No. of Shares	%
1. Gan Thiam Chai	87,724,248	24.40	–	–
2. VG Trustee Limited (as Trustee of the Narvee Foundation)	68,123,200	18.95	–	–
3. Gan Thiam Hock	22,462,133	6.25	–	–
4. Nareshchandra Gordhandas Nagrecha	–	–	68,123,200*	18.95

* Deemed interested pursuant to Section 8 of the Companies Act, 2016 by virtue of his substantial shareholdings in Narvee Foundation

STATEMENT OF DIRECTORS' SHAREHOLDINGS

as per Register of Directors' shareholdings as at 29 March 2019

	Direct		Indirect	
Name of Directors	No. of Shares	%	No. of Shares	%
1. Gan Thiam Chai	87,724,248	24.40	–	–
2. Kwan Sok Kay	16,544,972	4.60	–	–
3. Gan Thiam Hock	22,462,133	6.25	–	–
4. Lim Peng @ Lim Pang Tun	450,000	0.13	–	–
5. Nareshchandra Gordhandas Nagrecha	–	–	68,123,200*	18.95
6. Timothy Tan Heng Han	135,000	0.04	–	–
7. Lim Hun Soon @ David Lim	7,460,028	2.07	–	–
8. Abdul Razak bin Shakor	–	–	–	–
9. Dr. Nik Ismail bin Nik Daud	–	–	–	–
10. Eugene Hon Kah Weng	–	–	–	–

* Deemed interested pursuant to Section 8 of the Companies Act, 2016 by virtue of his substantial shareholdings in Narvee Foundation

LIST OF THIRTY (30) LARGEST SHAREHOLDERS AS AT 29 MARCH 2019

No.	Name of Shareholders	No. of Shares	%
1.	Gan Thiam Chai	80,537,582	22.40
2.	Maybank Securities Nominees (Asing) Sdn. Bhd. *Exempt AN for VG Trustee Limited (Narvee Foundation)*	68,123,200	18.95
3.	Gan Thiam Hock	22,033,600	6.13
4.	Kumpulan Wang Persaraan (Diperbadankan)	16,149,433	4.49
5.	Kwan Sok Kay	12,983,972	3.61
6.	Wu, Meng–Che	9,813,333	2.73
7.	Amanahraya Trustees Berhad *Public Strategic Smallcap Fund*	7,269,266	2.02
8.	Cimsec Nominees (Tempatan) Sdn. Bhd. *CIMB for Gan Thiam Chai (PB)*	7,186,666	2.00
9.	Lim Hun Soon @ David Lim	7,140,028	1.99
10.	Permodalan Nasional Berhad	6,099,633	1.70
11.	Kong Poh Yin	5,456,500	1.52
12.	Niels John Madsen	5,425,900	1.51
13.	Amanahraya Trustees Berhad *PB Growth Fund*	4,606,066	1.28
14.	Amanahraya Trustees Berhad *PB Smallcap Growth Fund*	4,562,266	1.27
15.	Gan Ka Bien	4,013,849	1.12
16.	Amanahraya Trustees Berhad *Amanah Saham Bumiputera 3 – Didik*	4,000,366	1.11
17.	HLIB Nominees (Asing) Sdn. Bhd. *Hong Leong Bank Bhd for Wu Chung Chen*	3,859,000	1.07
18.	Kwan Sok Kay	3,561,000	0.99
19.	Amanahraya Trustees Berhad *ASN Umbrella for ASN Sara (Mixed Asset Conservative) 1*	3,494,466	0.97
20.	Tokio Marine Life Insurance Malaysia Bhd *As Beneficial Owner (PF)*	3,333,333	0.93
21.	HSBC Nominees (Tempatan) Sdn. Bhd. *HSBC (M) Trustee Bhd for Manulife Investment Progress Fund (4082)*	3,194,000	0.89
22.	Maybank Nominees (Tempatan) Sdn. Bhd. *Maybank Trustees Berhad for RHB Capital Fund (200189)*	2,884,266	0.80
23.	HLIB Nominees (Asing) Sdn. Bhd. *Hong Leong Bank Bhd for Chen Tsai Tien*	2,718,766	0.76
24.	HLIB Nominees (Asing) Sdn. Bhd. *Hong Leong Bank Bhd for Chiang Peter*	2,604,000	0.72
25.	Amanahraya Trustees Berhad *Amanah Saham Bumiputera 2*	2,407,300	0.67
26.	Maybank Securities Nominees (Asing) Sdn. Bhd. *Pledged Securities Account for Shah Kamal Kant Zaverchand*	2,168,382	0.60
27.	Amanahraya Trustees Berhad *Public Islamic Emerging Opportunities Fund*	1,871,200	0.52
28.	Amanahraya Trustees Berhad *Public Islamic Opportunities Fund*	1,839,333	0.51
29.	Amanahraya Trustees Berhad *ASN Imbang (Mixed Asset Balanced) 1*	1,786,400	0.50
30.	Amanahraya Trustees Berhad *Public Select Treasures Equity Fund*	1,757,400	0.49
	Total	**302,880,506**	**84.25**

No. of Shares	
CDS account No.	

KAWAN FOOD BERHAD
http://www.kawanfood.com
(Company No. 640445-V)
(Incorporated in Malaysia)

PROXY FORM

I/We, ______________________________ (NRIC No./Company No. ____________________)

of ____

being a member of KAWAN FOOD BERHAD hereby appoint the *Chairman of the Meeting or ____________________

______________________________ (NRIC No. ____________________)

of ____

failing whom ______________________________ (NRIC No. ____________________)

of ____,

as my/our proxy(ies) to vote for me/us on my/our behalf at the Fifteenth Annual General Meeting of the Company to be held at Lot 129351, Jalan Sungai Pinang 4/19, Taman Perindustrian Pulau Indah, Selangor Halal Hub, Fasa 2C, 42920, Pulau Indah, Selangor Darul Ehsan, Malaysia on Friday, 31 May 2019 at 10.00 a.m. and at any adjournment thereof for/against the resolutions to be proposed thereat.

* Please delete the words "Chairman of the Meeting" if you wish to appoint other person(s) to be your proxy/proxies.

No	Resolutions		For	Against
1.	To approve the Directors' Fees and benefits payable to the Directors of the Company of up to RM1Million for the financial year ending 31 December 2019	Ordinary Resolution 1		
2.	Re-election of Mr. Gan Thiam Chai as Director	Ordinary Resolution 2		
3.	Re-election of Mr. Lim Hun Soon @ David Lim as Director	Ordinary Resolution 3		
4.	Re-election of En. Abdul Razak bin Shakor as Director	Ordinary Resolution 4		
5.	Re-election of Mr. Eugene Hon Kah Weng as Director	Ordinary Resolution 5		
6.	Re-appointment of Messrs ChengCo PLT as Auditors of the Company and to authorised the Directors to fix their remuneration	Ordinary Resolution 6		
7.	Proposed Renewal of Shareholders' Mandate for the Recurrent Related Party Transactions of a Revenue or Trading Nature with Shana Foods Limited and Rubicon Food Products Limited	Ordinary Resolution 7		
8.	Proposed Renewal of Shareholders' Mandate for the Recurrent Related Party Transactions of a Revenue or Trading Nature with Food Valley Sdn. Bhd.	Ordinary Resolution 8		
9.	Proposed Renewal of Shareholders' Mandate for the Recurrent Related Party Transactions of a Revenue or Trading Nature with K.C. Belight Food Industry (M) Sdn. Bhd. and MH Delight Sdn. Bhd.	Ordinary Resolution 9		
10.	Proposed Renewal of Shareholders' Mandate for the Recurrent Related Party Transactions of a Revenue or Trading Nature with Hot & Roll Sdn. Bhd.	Ordinary Resolution 10		
11.	Authority under Sections 76 of the Companies Act 2016 for the Directors to allot and issue shares	Ordinary Resolution 11		
12.	Proposed Adoption of New Constitution of the Company	Special Resolution		

(Please indicate with an "X" in the spaces provided how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his (her) discretion.)

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	Percentage
Proxy 1	%
Proxy 2	%
Total	100%

____
Signature/Common Seal

Date: ______________________________

Contact No.: ______________________________

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more than one (1) proxy to attend, participate, speak and vote in his/her stead. A proxy may but need not be a member of the Company.
2. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy.
3. Where a member is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited with the Share Registrar of the Company, Boardroom Share Registrars Sdn. Bhd. (formerly known as Symphony Share Registrars Sdn. Bhd.) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia not less than forty-eight (48) hours before the time for holding the meeting or any adjournment thereof. Any notice of termination of person's authority to act as a proxy must be forwarded to the Company prior to the commencement of the Annual General Meeting or Adjourned Annual General Meeting.
5. Pursuant to paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the resolutions set out in the notice of any general meeting will be put to vote by poll.
6. If the appointor is a corporation, the instrument appointing a proxy must be executed under its Common Seal or under the hand of its attorney.
7. In respect of deposited securities, only members whose names appear on the Record of Depositors on 24 May 2019 (General Meeting Record of Depositors) shall be eligible to attend the meeting or appoint proxy(ies) to attend and/or vote on his behalf.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and /or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 30 April 2019.

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Affix Stamp

THE SHARE REGISTRAR:

KAWAN FOOD BERHAD 640445-V
c/o Boardroom Share Registrars Sdn. Bhd.
(formerly known as Symphony Share Registrars Sdn. Bhd.)
Level 6, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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KAWAN Food Berhad
640445-V (Incorporated in Malaysia)

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Selangor Halal Hub, Fasa 2c
42920 Pulau Indah
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