MIECO

ANNUAL REPORT 2018

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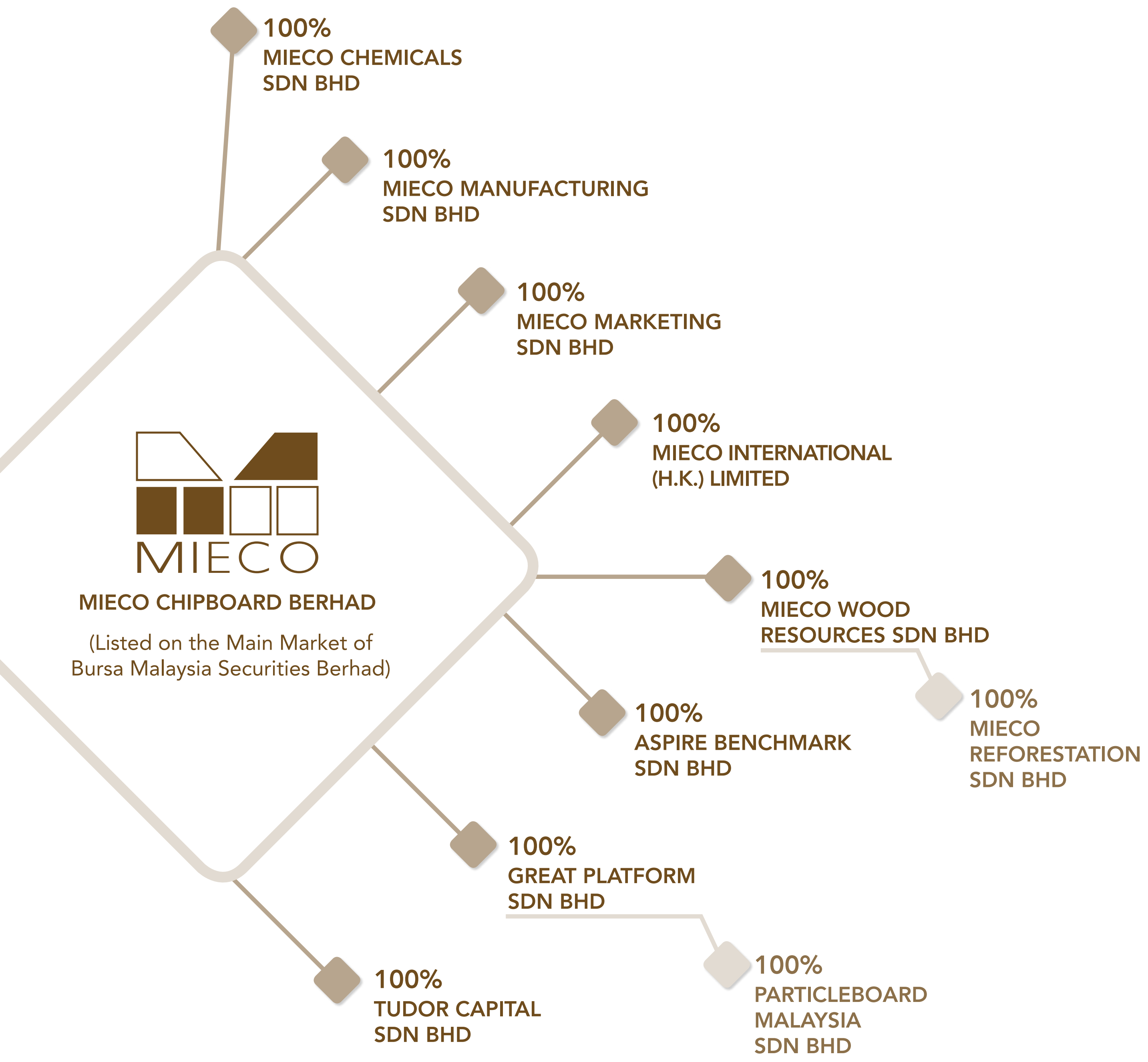
GROUP CORPORATE STRUCTURE
As At 9 April 2019



CORPORATE INFORMATION

BOARD OF DIRECTORS

Datuk Dr. Roslan Bin A. Ghaffar
Independent Non-Executive Chairman

Dato' Sri Ng Ah Chai
Group Managing Director

Mr. Ng Wei Ping, Keith
Executive Director

Mr. Cheam Tow Yong
Independent Non-Executive Director

Dato' Abdul Rashid Bin Mat Amin
Independent Non-Executive Director

Mr. Kajendra A/L Pathmanathan
Non-Independent Non-Executive Director

AUDIT COMMITTEE

Mr. Cheam Tow Yong *(Chairman)*
Dato' Abdul Rashid Bin Mat Amin
Datuk Dr. Roslan Bin A. Ghaffar

NOMINATION COMMITTEE

Dato' Abdul Rashid Bin Mat Amin *(Chairman)*
Mr. Cheam Tow Yong
Datuk Dr. Roslan Bin A. Ghaffar

REMUNERATION COMMITTEE

Dato' Abdul Rashid Bin Mat Amin *(Chairman)*
Mr. Cheam Tow Yong
Datuk Dr. Roslan Bin A. Ghaffar

REGISTERED OFFICE

No. 1, Block C, Jalan Indah 2/6
Taman Indah, Batu 11
43200 Cheras, Selangor Darul Ehsan
Tel : 603 - 9075 9991
Fax : 603 - 9080 7991

SECRETARY

Ng Geok Lian
LS No. 0007155

REGISTRAR

Metra Management Sdn Bhd
35^{th} Floor, Menara Multi-Purpose
Capital Square
No. 8 Jalan Munshi Abdullah
50100 Kuala Lumpur, Malaysia
Tel : 603 - 2698 3232
Fax : 603 - 2698 0313

AUDITORS

Messrs Deloitte PLT (LLP0010145-LCA)
(AF0080)
Level 16, Menara LGB
1, Jalan Wan Kadir
Taman Tun Dr Ismail
60000 Kuala Lumpur

BANKERS

Alliance Bank Malaysia Berhad
OCBC Bank (Malaysia) Berhad
Malayan Banking Berhad
Hong Leong Bank Berhad
Ambank Berhad
Public Bank Berhad
OCBC Al-Amin Bank Berhad
Al Rajhi Banking & Investment
Corporation (Malaysia) Berhad
Affin Islamic Bank Berhad

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

STOCK CODE

MIECO 5001

REUTERS CODE

MIEC. KL

WEBSITE

www.mieco.com.my

DIRECTORS' PROFILE

DATUK DR. ROSLAN BIN A. GHAFFAR

Independent Non-Executive Chairman
Member of Audit, Nomination and Remuneration Committees

Datuk Dr. Roslan Bin A. Ghaffar, aged 66, male, a Malaysian, was appointed to the Board on 18 February 2019 as an Independent Non-Executive Chairman of Mieco Chipboard Berhad.

Datuk Dr. Roslan has over 30 years of experience in the areas of economics, finance and investment. He holds a Bachelor of Science degree from Louisiana State University, Baton Rouge, USA, and obtained a Ph.D. at the University of Kentucky, Lexington, USA. He has done over 30 years of public service and has extensive experience in overseeing corporate organizations.

Datuk Dr. Roslan was awarded the Kesatria Mangku Negara in 1998 and Johan Setia Mahkota in 2002 for his service to the government, particularly the Employees Provident Fund. In 2018 he was also conferred the Darjah Pangkuan Seri Melaka (DPSM). Apart from receiving the academic degrees he also attended various executive training programs which has included the Harvard Premier Management Program in 2006.

In 1974, Datuk Dr. Roslan started work at Lembaga Pertubuhan Peladang Malaysia as an assistant credit officer upon completion of his Diploma studies at University Putra Malaysia (UPM). In 1975, he pursued further studies at Louisiana State University, Baton Rouge where he graduated with a Bachelor of Science degree. He subsequently continued post graduate studies at the University of Kentucky, Lexington, USA and completed his PhD in 1983. He resumed his services to Lembaga Pertubuhan Peladang in the same year.

In 1984, Datuk Dr. Roslan joined University Putra Malaysia as a lecturer in economics and was promoted to Associate Professor of Economics in 1991. For six years from 1985 to 1991, he also served as head of the Economics Department of University Putra Malaysia. In the 1992-1993 academic year, Datuk Dr. Roslan while on sabbatical leave from UPM, was with the University of Kentucky, Lexington, USA, as Visiting Professor. On various occasions while at the University Putra Malaysia, he had also served as consultant to various international and national organisations which included the World Bank, Asian Development Bank, Winrock International and the Economic Planning Unit of the Prime Minister's Department.

In 1994, Datuk Dr. Roslan joined the Employees Provident Fund and was given the responsibility to develop the economic and investment research capability of the Fund. With the given responsibility, he held the position of Director of Investment and Economic Research of the Malaysian EPF. He was promoted to the position of Senior Director in 1996 and in 2001 held the position of Deputy Chief Executive Officer of the Fund with the expanded responsibility of formulating and implementing investment strategies to meet the Fund's investment objectives until his retirement in 2007. The EPF had over RM 300 billion investment asset under management in 2007.

Datuk Dr. Roslan is currently the Chairman of Box-Pak (Malaysia) Berhad, a company listed on Bursa Securities Malaysia Berhad and Priceworth International Berhad. He is concurrently the Chairman of Kuala Lumpur Sentral Sdn Bhd a subsidiary of Malaysian Resources Corporation Berhad and Straits International Education Group Sdn Bhd and its subsidiary companies. Datuk Dr. Roslan is also an independent member of the board of Kwasa Land Sdn. Bhd and the director of MRCB-Quill Management Sdn Bhd, the Manager of Public Listed MRCB-Quill Reit. He is presently the Chairman of the Rating Committee of Malaysian Rating Corporation Berhad too.

Datuk Dr. Roslan does not have any family relationship with the Directors and/or major shareholders of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE
(Cont'd)

DATO' SRI NG AH CHAI
Group Managing Director

Dato' Sri Ng Ah Chai, aged 56, male, a Malaysian, was appointed to the Board on 15 November 2016 as a Group Managing Director of Mieco Chipboard Berhad.

Dato' Sri Ng has over 30 years of experience in timber and furniture industries. His involvement in the timber trade started in 1985 with a sawmilling business. In 1991, he expanded his business into tropical wood furniture manufacturing for the local market. He ceased his sawmilling business in 1993 and co-founded Seng Yip Furniture Sdn Bhd. Under Dato' Sri Ng's leadership, coupled with his extensive background and experience in timber and furniture business, Seng Yip Furniture Sdn Bhd has expanded from a kiln drying and timber processing business into manufacturer of furniture components and semi-furnished parts in 1995. In 1998, he further ventured into finished wood furniture business.

Currently, Dato' Sri Ng is the Executive Chairman and Chief Executive Officer of SYF Resources Berhad, a position he has held since 28 September 2005. Dato' Sri Ng is also the major shareholder of SYF Resources Berhad.

Dato' Sri Ng is the father of Mr Ng Wei Ping, Keith, the Executive Director of the Company. He has no conflict of interest with the Company other than disclosed in the Circular to Shareholders dated 30 April 2019 which is despatched together with this Annual Report 2018.

He has not committed any offences within the past five (5) years other than traffic offences, if any.

Dato' Sri Ng attended all five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

MR. NG WEI PING, KEITH
Executive Director

Mr. Ng Wei Ping, Keith, aged 29, male, a Malaysian, was appointed to the Board on 13 October 2017 as Executive Director of Mieco Chipboard Berhad. He graduated with a Bachelor of Commerce in Economics & Finance from University of Melbourne, Australia.

Mr. Keith has over 6 years' experience with SYF Resources Berhad Group (SYF) in key areas of corporate development, investments and property development. With financial qualifications of a Bachelor of Commerce and subsequently completing the examinations of the Certified Financial Analyst Institute, he has contributed to the growth of SYF and was instrumental in spearheading SYF's successful diversification into property development.

He is currently also a Director of SYF Resources Berhad and Group and several local private limited companies involved in property development. His involvement with the Company commenced in January 2017 when he took on the role of General Manager overseeing business operations and investments.

He is the son of Dato' Sri Ng Ah Chai, the Group Managing Director and the major shareholder of the Company. He has no conflict of interest with the Company other than disclosed in the Circular to Shareholders dated 30 April 2019 which is despatched together with this Annual Report 2018.

He has not committed any offences within the past five (5) years other than traffic offences, if any.

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

MR. CHEAM TOW YONG

Independent Non-Executive Director
Chairman of Audit Committee
Member of Nomination and Remuneration Committees

Mr. Cheam Tow Yong, aged 63, male, a Malaysian, was appointed to the Board on 15 November 2016 as an Independent Non-Executive Director of Mieco Chipboard Berhad.

Mr. Cheam is a chartered accountant with New Zealand Society of Accountants and is a Registered Accountant of Malaysian Institute of Accountants. Mr. Cheam received a Bachelor of Commerce degree from University of Otago, New Zealand in 1978 and Diploma of International Management Study from Sweden Institute of Management in 1995.

Mr. Cheam served as financial professional, as accountant, accounting manager and financial controller to a number of local and multinational companies from 1979 to 1993. He served as Managing Director of Thomson Electronic Parts Sdn Bhd, a subsidiary of Thomson CSF of France from 1993 to 1999. He served for Tomisho Berhad (now known as SYF Resources Bhd) first as Chief Operating Officer, then as Chief Executive Officer from 1999 to 2003. From 2004 to 2007, he served as Corporate Director of PJI Holdings Berhad (now known as YFG Berhad). From 2007 to 2011, he served as Finance Director of a local company which involved in oil and gas EPC contracting business.

Mr. Cheam had also previously served as independent director of Oil Corp Berhad and Kinsteel Berhad.

Mr. Cheam is now a director of a local private company.

Mr. Cheam does not have any family relationship with the Directors and/or major shareholders of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past five (5) years other than traffic offences, if any.

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

DATO' ABDUL RASHID BIN MAT AMIN

Independent Non-Executive Director
Chairman of Nomination and Remuneration Committees
Member of Audit Committee

An alumnus of the Malay College Kuala Kangsar, Dato' Abdul Rashid Bin Mat Amin, aged 68, male, a Malaysian, was appointed to the Board on 15 November 2016 as an Independent Non-Executive Director of Mieco Chipboard Berhad.

Dato' Abdul Rashid pursued his training in forestry (1971-1976) at the Institut Pertanian Bogor in Indonesia where he graduated with a Bachelor of Forestry. He then furthered his studies at the University of Oxford (1982-1983) United Kingdom for his M.Sc in land use planning. Later on, he completed his Master in Business Administration (MBA major in marketing) at Universiti Putra Malaysia (2006-2008).

During his career, he served the Forestry Department for almost 30 years having worked in Terengganu, Kedah, Perak, Pahang and Headquarters in Kuala Lumpur. He was seconded as Director General of the Malaysia Timber Industry Board from 1998 to 2002 and subsequently assumed the position of Director General of Forestry in 2002 to 2005 before retiring from service.

In his many years of service, he has gained expertise in forest management, forest product marketing, land use planning, natural resources management, environmental studies and business studies.

Dato' Abdul Rashid does not have any family relationship with the Directors and/or major shareholders of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past five (5) years other than traffic offences, if any.

Dato' Abdul Rashid attended four (4) out of five (5) Board Meetings of the Company held during the financial year ended 31 December 2018.

MR. KAJENDRA A/L PATHMANATHAN

Non-Independent Non-Executive Director

Mr. Kajendra A/L Pathmanathan, aged 45, male, a Malaysian, was re-designated as Non-Independent Non-Executive Director on 30 December 2016 from his position as Executive Director.

Mr. Kajendra holds a Bachelor of Commerce degree and a Bachelor of Law degree, both from The University of Melbourne. He is also a member of the Institute of Chartered Accountants, Australia and New Zealand. He started his career with Ernst & Young, Kuala Lumpur in 1999 in the Corporate Recovery & Insolvency department and moved to Ernst & Young, London in 2008. While with Ernst & Young, he has had a very broad range of experience on a wide variety of clients across various industries in Asia and Europe. He has extensive experience in leading strategic independent business reviews and in advising stakeholders on significant restructuring of public and private companies. In October 2013, Mr. Kajendra joined BRDB Developments Sdn Bhd ("BRDB") as General Manager, Compliance and on 1 June 2014, he took up the position of Chief Operating Officer of Mieco Chipboard Berhad. Subsequently, he was appointed as Executive Director of Mieco Chipboard Berhad on 25 February 2016 until his re-designation.

Mr. Kajendra is currently the Chief Executive Officer of BRDB. He sits on the boards of BRDB and it's subsidiary Companies.

Mr. Kajendra does not have any family relationship with the Directors and/or major shareholders of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past five (5) years other than traffic offences, if any.

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

KEY SENIOR MANAGEMENT PROFILES

MR LIM KAR HOR

MR LIM KAR HOR, aged 55, male, a Malaysian is the Senior Manager, Technical Services of MIECO. He is now acting as Plant Manager for Gebeng Plant. He holds a Bachelor degree in Electrical Engineering from University Teknologi Malaysia. He was with a few multi-national electronic and audio-visual manufacturing companies prior to joining MIECO in 2000. He is presently overseeing the manufacturing plant in MIECO Gebeng.

MR NG TIEN YING

MR NG TIEN YING, aged 35, male, a Malaysian, is the Manager, Finance & Accounts of MIECO. He holds an advance diploma in Accountancy from Tunku Abdul Rahman College and is a member of the Association of Chartered Certified Accountants. Prior to joining MIECO, he was working in a tax firm and subsequently with a few manufacturing companies before joining MIECO in 2011.

GROUP MANAGING DIRECTOR'S STATEMENT AND MANAGEMENT DISCUSSION & ANALYSIS

Dear Shareholders,
I am pleased to present to you the annual report and audited financial statements for Mieco Chipboard Berhad ("MIECO" or "the Group") for the financial year ended 31 December 2018 ("FY2018")

BUSINESS OVERVIEW

The core business of the Group is in the manufacturing and distribution of particle boards or sometimes known as chipboards, with primary focus on plainboards, melamine faced boards ("MFC") and Medium Density Fibreboards ("MDF"). Upon the completion of the acquisition of Great Platform Sdn Bhd in February 2018, the total annual production capacity of MIECO has increased to over 1,000,000m^3 per annum.

MIECO's chipboards conform to international quality standards such as the European Community's BS EN 312 standard that is applicable for both moisture-resistant and non-moisture resistant boards with E1 and E2 formaldehyde emission levels. MIECO is certified for ISO 9001:2015 Quality Management System accreditation by AJA EQS Certification. MIECO have also secured a significant number of Ecolabels which meet US EPA, European and Japanese Industrial's standards.

After two years of positive results in 2016 and 2017, 2018 proved to be difficult year for us, resulting in MIECO registering a loss for the FY2018.

Revenue contribution from Malaysia in FY2018 was approximately RM324.2 million of total Group turnover with the rest arising from exports of RM95.6 million to more than 20 countries, mostly in the Asia Pacific Region. Export sales are mainly denominated in US Dollar.

The Group is the major supplier of the domestic market demand which comes from the furniture industry, renovation and fit-out construction industry and intermediaries who laminate chipboards for end users.

MIECO is committed to build long-lasting mutually rewarding partnership with its customers and stakeholder communities around the world and also the development of its more than 960 employees.

REVIEW OF FINANCIAL PERFORMANCE

During the year under review, the Group revenue rose a marginal 20%, from RM349.3 million in 2017 to RM419.8 million, driven mainly by the inclusion of the newly acquired subsidiary results.

Despite higher revenue, the Group still recorded a loss before taxation and loss for the year of RM55.7 million and RM60.6 million in 2018 respectively, compared to the profit before taxation of RM48.0 million and profit for the year of RM47.9 million posted in 2017. The losses mainly as a result of a non-cash impairment loss of RM26.1 million on the plants arising from financial year end assessment of carrying value against its recoverable amount and overall soft market conditions in pricing as well as high cost.

Significant to note is that the impairment loss of RM26.1 million was a non-cash loss reported in accordance with the provisions of relevant Accounting Standards. The write down, although non-cash, affected the profit and loss of the Group. In the event the performance of the plants improves, this impairment loss can be reversed in future years.

The Group registered net cash flows from operating activities of RM59.0 million for FY2018 as compared to negative net cash flows of RM1.6 million for FY2017. The increment was in tandem with the increase in payable accounts and also due to the decrement of inventories.

Net cash used in investing activities was RM86.5 million for FY2018, mainly resulted from the net acquisition of subsidiary of RM57.0 million, purchase of property, plant and equipment of RM24.3 million and deposit with licensed banks of RM5.5 million.

GROUP MANAGING DIRECTOR'S STATEMENT AND MANAGEMENT DISCUSSION & ANALYSIS (Cont'd)

Net cash flow generated from financing activities of RM25.6 million for FY2018 was mainly attributable by the credit facilities granted by the banks of RM53.4 million which consist of net RM34.9 million of Term Loan facility and RM18.5 million of Banker Acceptance facility.

Overall, cash and cash equivalents decreased by RM1.8 million to RM10.4 million as at 31 December 2018, mainly due to net cash flows used in investing activities which were offset by net cash flows from operating activities and financing activities.

Accordingly, the Group borrowings increased from RM80.8 million as at 31 December 2017 to RM236.3 million as at 31 December 2018. In turn the Group's gearing ratio has increased 95% as at the end of 2018 as compared to 31% in the previous year.

The Group continues to maintain a prudent approach towards managing its capital resources to ensure adequacy in meeting operational requirements and capital expenditure from time to time.

REVIEW OF OPERATIONS

Our operations in 2018 were mainly centred on optimising efficiencies and cost containment. This included several key initiatives to improve efficiencies, as well as cost cutting measures across the business.

Sourcing for wood raw material has always been challenging. We were focused in our efforts on ensuring the consistency of continuing supply that met our quality requirements and increasing our pool of wood suppliers.

We worked closely with the glue suppliers, to enable them to develop and provide tailor-made adhesive according to our specifications which is to minimise the cost and maximise the efficiency of the glue.

In terms of plant operations, there were some unexpected downtime during the year. However, through improvements in preventive maintenance, it has enhanced the efficiency and reduced lost production time.

On the product front, we have launched more than two dozen of new MFC colour designs in 2018 to support our strategy of always offering customers a breadth of product choices and finishes.

In marketing, we focused on protecting our strong domestic market, and made further inroads into China, Korea, India and Philippines – all strong growth markets for MIECO.

In terms of pricing, we stayed true to our strategy of following the market to ensure our pricing remain competitive.

CORPORATE DEVELOPMENT

In FY2018 the Group has completed the acquisition of the entire issued share capital of Great Platform Sdn. Bhd. ("GPSB"), a wholly-owned subsidiary of SYF Resources Berhad ("SYF"), comprising 5,000,000 ordinary shares from SYF at a total purchase consideration of RM58.6 million.

The acquisition was completed on 27 February 2018. As the business activities of GPSB is similar to MIECO Group's business activities, the participation of GPSB in MIECO Group serves as an opportunity to MIECO for its immediate expansion of production capacity. In addition, it increases MIECO's product offerings and at the same time provides MIECO with access to a wider customer base and potential to explore better market traction abroad. It also augurs well with the long term business strategies of MIECO of securing the local market share as well as to increase exports through the expansion of its products offerings, and increased production capacity of the enlarged MIECO Group.

BUSINESS STRATEGY

2018 has been a challenging year for the Group. Nevertheless we remain focused on our strategy to increase capacity utilization and improve cost efficiency and to move up the value chain by producing higher premium products resulting in potentially better profit margins.

GROUP MANAGING DIRECTOR'S STATEMENT AND MANAGEMENT DISCUSSION & ANALYSIS (Cont'd)

Early 2019 has shown some upward movement in selling prices, which is an encouraging sign. We will continue to monitor the global economic outlook, whilst exploring the possibility of gradually increasing selling prices.

At the same time, we recognise the challenges of the 2019 operating environment and the group will certainly continue to cope and strengthen its position to strive for better performance.

At the production end of our business operations, we will procure and ensure increased supply of raw materials to support our strategy in increasing capacity utilization. A revised production planning schedule from customer-centric to production based planning would enable us to achieve higher output more efficiently, reducing wastage and production down time.

Marketing will continue to be a critical area of focus for MIECO in 2019, with particular emphasis on our domestic market, which remains steady and less impacted by fluctuations in foreign exchange rates. Exports continue to be an important segment and MIECO is looking at the viability of entering some new export markets.

We will continue to focus expanding our presence in the Asia Pacific Region, amongst others China, Korea, India and Philippine.

As always, we will continue to build lasting relationships with our Malaysian customers, who have been loyal customers to MIECO and who contribute more than half of our global business.

INDUSTRY PROSPECTS AND OUTLOOK

Amid escalating trade tensions and tighter global financial conditions, the Malaysian economy recorded a respectable growth of 4.7% in 2018. Growth in 2018 was further affected by unanticipated supply disruptions in the commodity-related sectors.

For 2019, as the supply disruptions recede and new production facilities commence, the Malaysian economy is expected to continue to expand at a steady pace. Private sector demand is expected to remain the main driver of growth amid fiscal rationalisation while the external sector would be weighed down by weaker global demand. Although sentiments have moderated from recent highs, private sector expenditure will continue to be supported by fundamental factors such as continued income and employment growth.

Risks to growth remain tilted to the downside. These stem mainly from further escalation of trade tensions and tightening of global financial conditions.

(Source : Economic and Financial Developments in Malaysia in the Fourth Quarter of 2018, Bank Negara Malaysia)

The first half of 2018, saw chipboard prices continuing to fall from the peak in the third quarter of 2017 and reached bottom in mid-2018 before stabilising in the second half of the year. Going into 2019, there are indications of a mild recovery in price although any such recovery is expected to be a slow and gradual process in light of current economic and market conditions both locally and globally.

With the price of chipboard largely being determined by external factors, the Group will continue to work on the several measures that have been taken to improve operating results. On the marketing front, we seek to improve our sales mix and grow our customer base for higher value products viz. melamine faced chipboard and higher grade plain chipboard. While this would gradually increase revenue, cost control measures are actively being undertaken in sourcing and usage of raw materials as well reducing production overheads.

Meanwhile, the Group will continue to rationalise and streamline production facilities to improve efficiency and achieve better cost management.

We expect to see some boost in demand, albeit a small one.

GROUP MANAGING DIRECTOR'S STATEMENT AND MANAGEMENT DISCUSSION & ANALYSIS (Cont'd)

RISK MANAGEMENT

The wood-based manufacturing industry is particularly sensitive to cyclical variations in the general economy and to uncertainty regarding future economic prospects of the countries in which we export to. A downturn in these countries could also materially and adversely affect our ability to take advantage of market opportunities.

Even though the market has shown some positive indication of recovery, we still expect market conditions to remain difficult, especially with competition from both local and major international players from Thailand. However, we are confident that this can be mitigated by the continuous effort to maintain our products quality and the competitiveness of our selling price.

For our exports, proceeds are mainly denominated in US Dollar. Hence, any fluctuation in the US Dollar will have a direct impact on our sales proceeds. In order to hedge against these fluctuations, the Group will enter into forward exchange contracts.

As most of our production operations are automated and less labour intensive, therefore we don't foresee much challenges in terms of workforce. The shortage of foreign workers would not have any impact on us as more than 80% of our workers are Malaysian.

We will continue to work hard to minimise the impact of the challenging environment on MIECO's operations by proactively managing production cost and working capital, and cementing the values associated with our brand – quality, value, design and service.

DIVIDEND

The Directors are of the opinion that the Group should continue to conserve cash to meet its loan repayment obligations, for working capital and plant maintenance and therefore are not recommending the payment of dividends for financial year ended 2018. It is the Board's intention to resume the payment of dividends as soon as circumstances permit.

(No dividend was declared for the financial year ended 31 December 2018).

APPRECIATION

On behalf of the Board, I would like to express our heartfelt thanks and gratitude to Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah, our past Independent Non-Executive Chairman for her dedication, invaluable guidance and contribution to the Group.

At the same time, I would like to welcome our new Independent Non-Executive Chairman, Datuk Dr. Roslan Bin A. Ghaffar who was appointed to the Board on 18 February 2019. His diverse experience, expertise and knowledge will add value to the Board in decision-making and in upholding good corporate governance standards.

I would also like to extend my sincere gratitude to the Board members in contributing towards the Group's continued success in these challenging times.

The Group would also like to thank our valued customers, business associates, partners, bankers, staff and shareholders for their invaluable contribution and support.

Thank you.

DATO' SRI NG AH CHAI
Group Managing Director

SUSTAINABILITY STATEMENT

MIECO recognises the importance of managing sustainable value drivers in driving the future growth of the Group. Globally, the push towards sustainability comes from multiple bodies in various forms, including quasi-government bodies such as the United Nations in the form of the United Nations' Sustainable Development Goals ("UN SDGs").

This Sustainability Statement (the Statement) marks the transition from our previous Corporate Social Responsibility (CSR) reporting. The Statement highlights the Group's policies and practices in terms of managing the sustainability aspects of business, including economic, environment and social.

MIECO utilises a series of policies and practices to operationalise sustainability. This includes strategically assigning personnel to relevant functions, aligning policies with globally recognised ISO standards, and assessing topics that are material to stakeholders. The Group also routinely reviews the robustness of these activities to ensure their continuous effectiveness.

THE 17 SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) are 17 common goals set by the United Nations General Assembly at the 2015 United Nations Conference on Sustainable Development. The SDGs are aimed at promoting collaboration between governments, corporates and other stakeholders in tackling issues in relation to the economy, the environment and society. We support the SDGs and will shape our long-term sustainability strategy and initiatives based on these goals.

SCOPE

The Statement covers all of the Group's subsidiaries except Great Platform Sdn Bhd, which was acquired on 27 February 2018, as it is currently undergoing operational integration with the Group.

All reported information covers the period from 1 January to 31 December 2018.

The Statement has been prepared in accordance with Practice Note 9 of Bursa Malaysia's Main Market Listing Requirements, guided by the bourse's Sustainability Reporting Guide.

SUSTAINABILITY GOVERNANCE

We at MIECO believe that sustainability governance is fundamental to the effective implementation of our sustainability initiatives. It also actively promotes oversight on our established initiatives and management processes. Currently, responsibility for specific sustainability management programmes reside with the respective functional units within the Group. This includes the Human Resource Division, the Engineering Division, and the Environmental Health & Safety Division.

STAKEHOLDERS

We strive to be responsible corporate citizens through the engagement of our stakeholders, to understand their areas of concern. We have been engaging with our stakeholders through various methods.

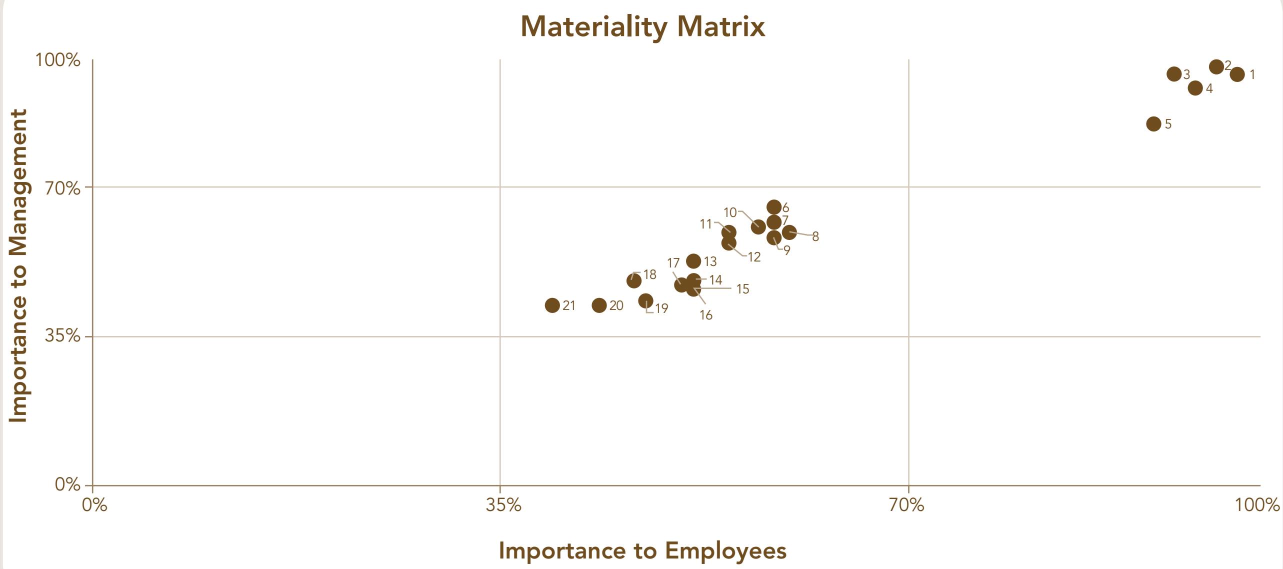
Stakeholders	Engagement Activities	Frequency of engagement
Employees	- Employee induction training - Townhall sessions - Safety briefings - Learning and developmental programmes - Performance appraisals	- At least once a year - Ad hoc basis - A one-time briefing to new staff - Throughout the year - At least once a year
Customers	- Customer feedback mechanism	- Once a year
Investors	- Analyst briefings - Annual General Meetings - Financial statements	- Ad hoc basis - Once a year - At least four times a year
Government and regulatory authorities	- Meetings	- As and when required
Media	- Media releases - Press conferences	- As and when required - As and when required
Local communities	- CSR events	- Based on the HR Division's annual calendar

MATERIALITY

It is important for the Group to understand the key sustainability drivers that will significantly affect our business operations. A materiality survey has been undertaken to prioritise sustainability issues that are critical to the organisation. MIECO conducted an internal stakeholder survey of the Group's senior management and employees. This survey covers the ranking of 21 sustainability topics, the results of which have been used to create the Group's materiality matrix. We have identified five material topics for fiscal 2018, as reflected in the upper right quadrant of the diagram below:

1. Financial sustainability
2. Practice of good business conduct/ethics
3. Risk management
4. Anti-corruption policies and procedures
5. Supply-chain management

The Statement also highlights other environmental and social topics that may not be material to MIECO. Moving forward, we intend to be more inclusive and systematic by integrating external stakeholders into our stakeholder engagement process.



Legend:

No.	Sustainability Topic	No.	Sustainability Topic
1	Financial sustainability	12	Assessment of suppliers' environmental practices
2	Practice of good business conduct/ethics	13	Safe working environment
3	Risk management	14	Client satisfaction
4	Anti-corruption policies and procedures	15	Respecting human rights
5	Supply-chain management	16	Client data privacy
6	Waste management	17	Employee benefits
7	Water management	18	Diverse and inclusive workplace
8	Material management	19	Employee training
9	Energy management	20	Corporate social contribution to local communities
10	Carbon emission	21	Assessment of suppliers' social practices
11	Land and biodiversity management		

ECONOMICS

Managing financial sustainability, commitment to good business conduct and practices, and supply-chain management are important to ensure that MIECO keeps delivering quality products and services.

Financial Sustainability

MIECO generated RM419.8 million of revenue in the FY2018, but incurred a net loss of RM60.6 million. The latter was primarily due to a RM26.1 million impairment loss amid soft market conditions.

Moving forward, we have taken several measures to improve the Group's operating results.

We will keep striving to improve our sales mix and expand our customer base through the promotion of higher-value products, such as melamine-faced chipboard and higher-grade plain chipboard. Internally, we aim to control our operating costs by improving our sourcing methods and utilisation of raw materials, along with the reduction of overheads. This is in line with our commitment to financial sustainability.

For further details of our financial performance, please refer to the Financial Statements section of this report.

Commitment to Good Business Conduct

MIECO aims to achieve the highest standards of integrity and governance in the conduct of our business and daily operations. All our employees are expected to observe the Code of Conduct and Ethics and Employee Handbook, to maintain the highest standards of professional conduct.

The Code of Conduct and Ethics includes an anti-bribery clause, and serves as a guide to conducting business with integrity and ensuing compliance with all applicable laws, rules and regulations. In the same vein, the Group has also established a Whistleblowing Policy that provides a platform for all stakeholders to report any instance of misconduct or criminal offence. Violation of the Code of Conduct and Ethics can be conveyed to the Managing Director or mailed directly to the Chairman of the Audit Committee.

An internal grievance process has been established, as an alternative mechanism for employees to submit their concerns in the workplace. This platform allows MIECO to systematically identify issues that affect the well-being of our employees and the dynamics of the work environment.

Supply-Chain Management

MIECO believes that sustainable supply-chain management is crucial for a responsible future. The Group applies these considerations into our contractor sourcing, along with our raw material and equipment sourcing processes. Appropriate management of the supply chain will ensure that MIECO's impact on the broader environment remains positive.

The Group has also established a Chain of Custody (CoC), as required under the Programme for the Endorsement of Forest Certification (PEFC) Standards (PEFC ST 2002:2013). We have taken steps to track the flow of raw materials within the production process, to promote the traceability of our products. Furthermore, we have defined an accountability structure relating to the CoC, to ensure continued compliance with the PEFC standards.

ENVIRONMENT

MIECO maintains the ISO 14001:2015 Environmental Management Systems, the ISO 9001:2015 Quality Management Systems, the Programme for the Endorsement of Forest Certification (PEFC), and MyHijau certification. The Group's melamine laminated products are certified under the Singapore Green Label Certification developed by the Singapore Environment Council. Such certification ensures that MIECO's operations are in accordance with best practices, thereby providing a structured approach to protect and conserve the environment.

SUSTAINABILITY STATEMENT
(Cont'd)

Internally, MIECO has an Environmental, Health and Safety (EHS) Policy, which covers the necessary considerations for the environment and our employees. This policy serves to remind MIECO's employees of the importance of conserving natural assets and minimising any adverse impact on the environment.

MIECO has also established a list of key environmental objectives that outline our commitment to the environment. These objectives include the following:

- Reduce environmental footprint
- Prevent pollution
- Improve employees' and contractors' awareness on environmental management

We have developed various programmes to address crucial environmental concerns, such as soil pollution, chemical management, air, water and waste management.

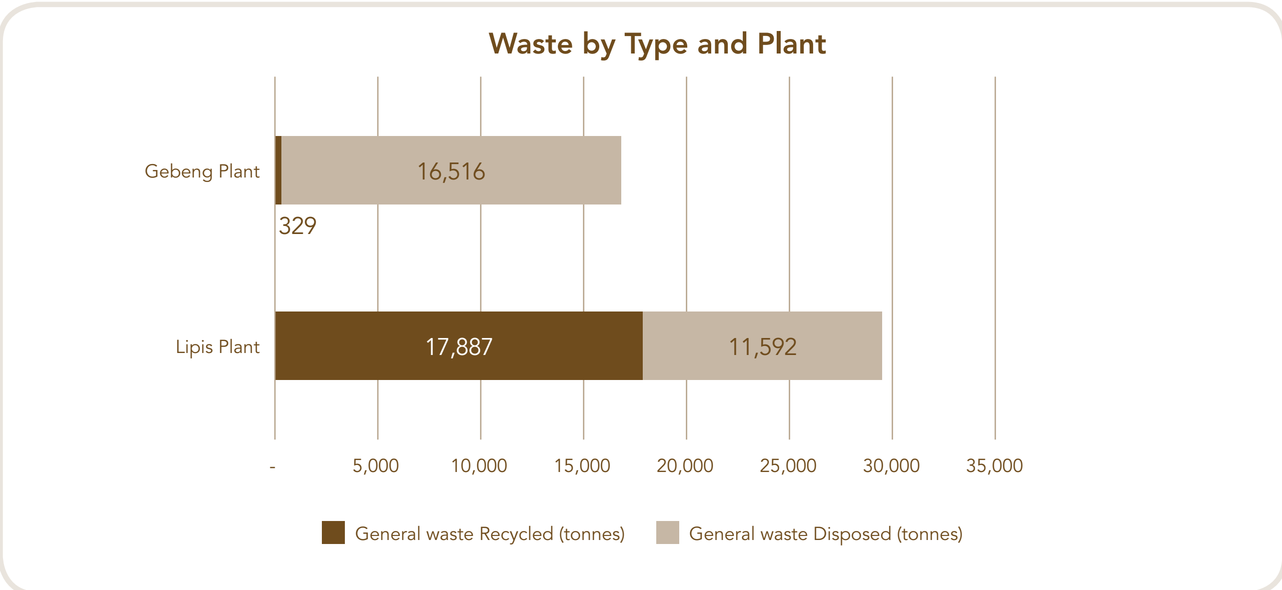
Land and Biodiversity

MIECO aims to reduce the impact of pollution on the surrounding ecosystem and biodiversity. This addresses environmental preservation issues and takes into consideration the concerns of various stakeholders. The Group's pollution prevention measures target to mitigate the effects of chemicals and waste on air, water and soil. MIECO manages liquid waste by utilising proper and secure containers for chemicals and oils. We have also employed controls to ensure chemical-handling tasks are conducted away from drains. This prevents unintended spillage at the source, thereby minimising an adverse impact on rivers, such as eutrophication caused by an influx of chemicals.

Notably, MIECO's adherence to the PEFC helps guarantee that raw materials are procured in adherence to Sustainable Forestry Management (SFM) processes. This enforces our commitment to the responsible consumption of natural resources.

Resource, Material and Waste Management

Responsible waste disposal and recycling of by-products are essential for environmental preservation. In fiscal 2018, MIECO's general waste disposal came up to 28,108 tonnes while recycling 18,215 tonnes of waste. Our waste disposed is undertaken in accordance with the relevant rules and regulations.



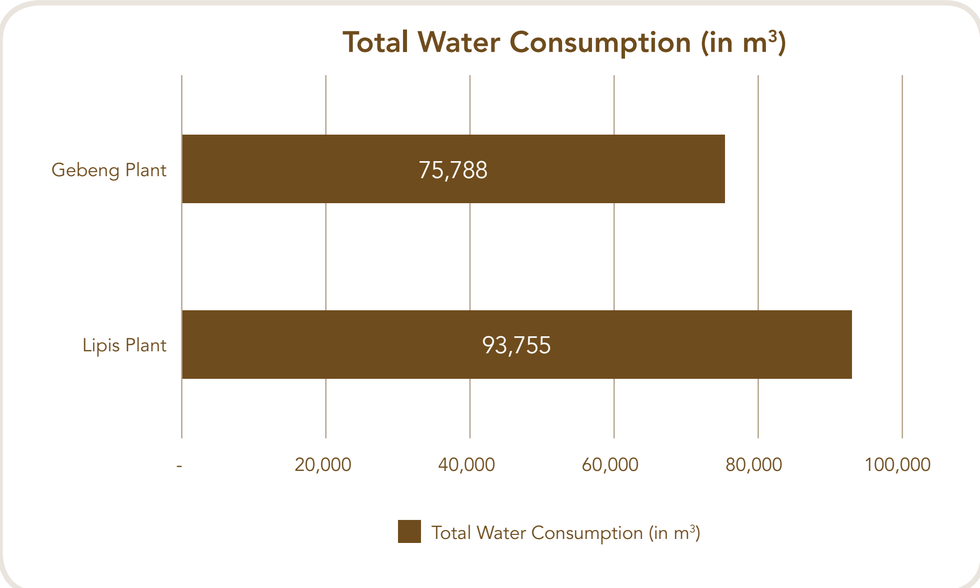
MIECO separates waste for reuse and recycling through the application of the Japanese 5S principles (sort, set in order, shine, standardise and sustain) in our workplace practices. This maximises workspace efficiency as the principles prescribe measures to reduce resource consumption, identify and eliminate waste, and create a clean and organised working environment. In addition, we ensure the safe disposal of sludge and wastewater according to the requirements of the Department of Environment.

Water Management

In 2018, we earmarked optimisation of water consumption among our key initiatives. To this end, we have implemented multiple programmes to reduce group-wide water consumption. Our management programmes include the following:

- Using sensors for waterspray dryer
- Water treatment, recycling and reuse at Glue Kitchen
- Periodic checks on water consumption
- Systematically identifying and repairing leaky water pipes
- Educating employees on the importance of water conservation

Our water consumption in fiscal 2018 is illustrated below:



Total water recycled and reused:

33.3m^3

Energy Management

MIECO recognises the Government's aspiration of increasing the nation's energy efficiency. Given the direct correlation between energy efficiency, cost savings and carbon reduction, the Group has decided to pursue energy efficiency measures in order to alleviate our environmental impact.

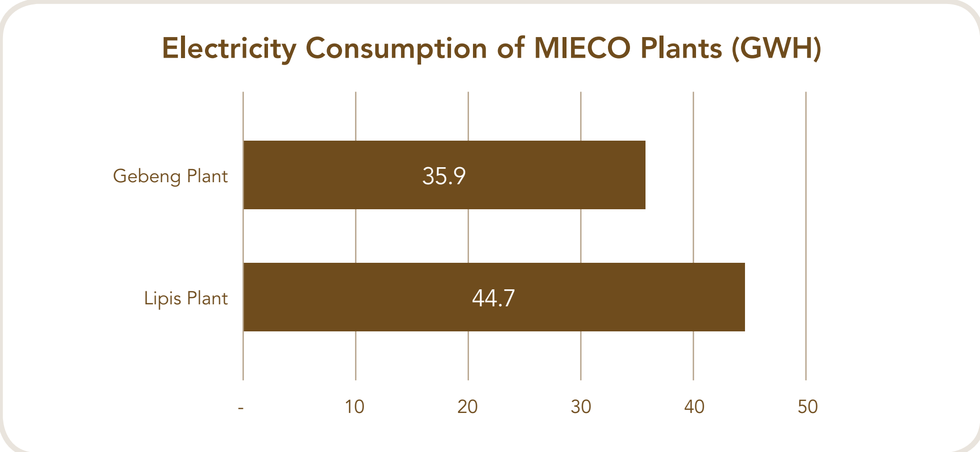
MIECO Manufacturing Sdn Bhd, a wholly owned subsidiary of the Group, has developed an Efficient Electrical Energy Management (EEEM) Policy that outlines the following commitments:

- Minimise energy wastage to improve cost effectiveness, working conditions and productivity.
- Effective communication of energy efficiency objectives to all employees.
- Compliance with applicable acts and regulations.
- Continuous improvement of management practices.
- Use of new technology.

SUSTAINABILITY STATEMENT
(Cont'd)

MIECO has taken steps to reduce energy consumption through the incorporation of a periodic service and maintenance protocol for our machines. This is to ensure that the machines are operating at an optimal level, to reduce inefficiencies during operation. Furthermore, we have procedures to ensure unused machines are switched off after having been idle for more than an hour, to reduce electricity consumption.

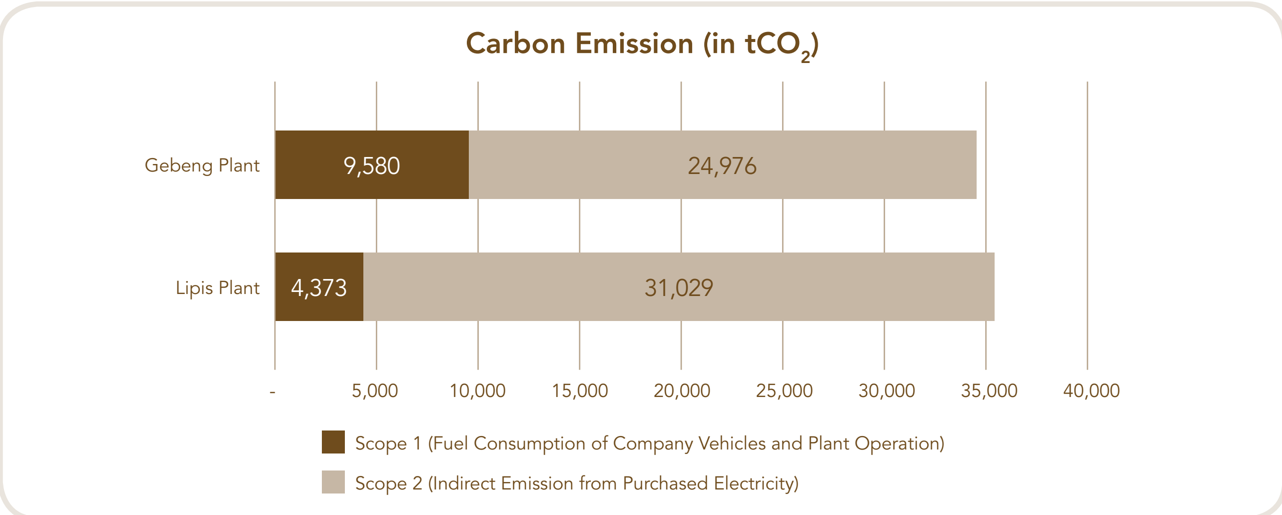
The following chart indicates the amount of electricity consumed by MIECO's two manufacturing plants.



Carbon Emissions

Carbon emissions have a direct, significant impact on global warming and the achievement of the 2 Degree Scenario. In line with our overarching objective of environmental conservation, we aim to control our carbon footprint. MIECO's carbon emission primarily stems from our manufacturing plants and company vehicles. The measurement of our emissions, therefore, aids in the mitigation of our impact on the global environment.

The Group has segmentised our carbon emissions to individual plants and their related scopes, as illustrated below.



Reference: http://www.carbonsolutions.com/calculator.html

Although MIECO has not disclosed our Scope 3 emission at this juncture, we are looking at establishing methodologies and boundaries to consider such emission factors in the future.

SOCIAL

The welfare of employees is paramount to MIECO. The Group aspires to be a responsible employer by providing a safe and inclusive environment for our employees. Our core values shape and influence the way we work. Themes that are vital to MIECO include occupational health and safety, employee training, employee rights and benefits, workforce diversity, service quality, and community engagement.

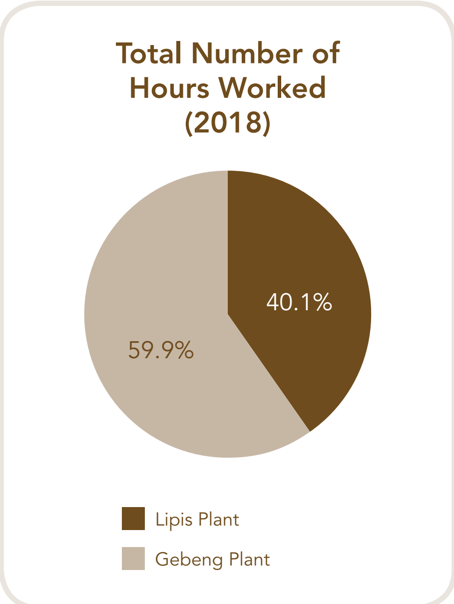
Occupational Health and Safety

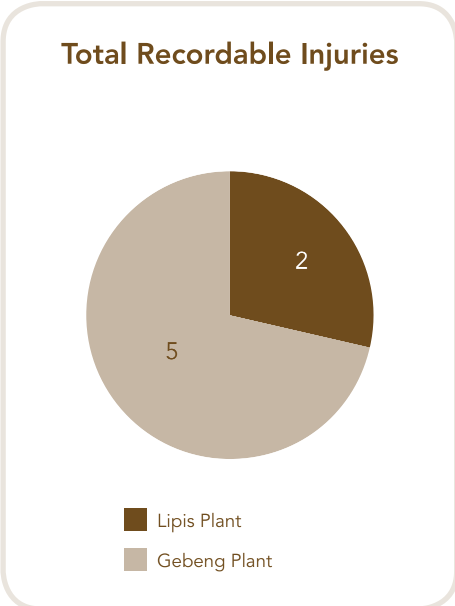
MIECO subscribes to the highest standards in health and safety management, to ensure the safety of our employees. Accordingly, we have certified our occupational safety management systems in line with OHSAS 18001:2007, thus ensuring best practices in the Group's operations.

We have established separate health and safety committees for each of our plants, with a 29-member committee in Lipis and a 33-member committee in Gebeng. Both senior management and employees are equally represented in these committees.

The committees are primarily tasked with the development of standard operating procedures (SOP) to guide our work processes. In addition, they undertake studies on potential hazards within the work place and periodically review existing practices.

We have also conducted health and safety training programmes, to ensure our employees are equipped with an appropriate understanding of the health and safety requirements of the workplace. We did not record any fatalities during the course of 2,194,593 work hours in 2018.





Fatalities recorded: 0

Service Quality

Quality management is an essential factor in our business processes. Stringent checks and balances are put in place to guarantee the quality of our products and services. Our quality policies emphasise the need for human capital development. We have taken measures to ensure our employees have adequate on-the-job training (OJT) to deliver products of the highest quality.

SUSTAINABILITY STATEMENT
(Cont'd)

Employee Rights and Benefits

MIECO is committed to treating our employees fairly and rewarding excellence. Besides our compliance with the applicable laws and regulations, we also offer allowances, a comprehensive leave system, and medical as well as hospitalisation benefits.

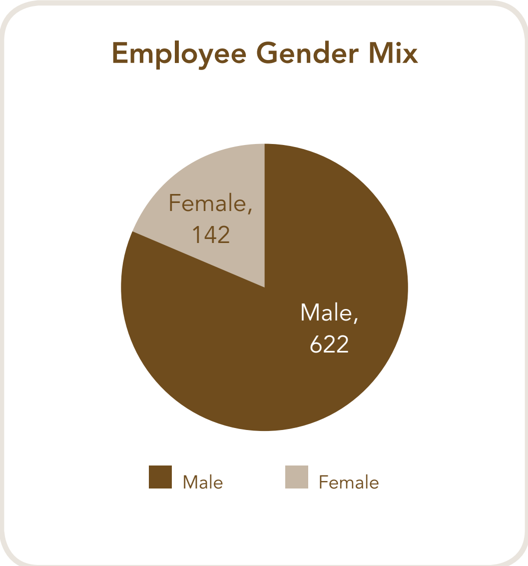
Furthermore, we encourage work-life balance among our employees. To facilitate a healthy lifestyle, we have established Kelab Sukan Sosial MIECO (the Club), which took part in CSR programmes, as well as other activities for our employees. In 2018, the Human Resources Department organised several activities such as the following:

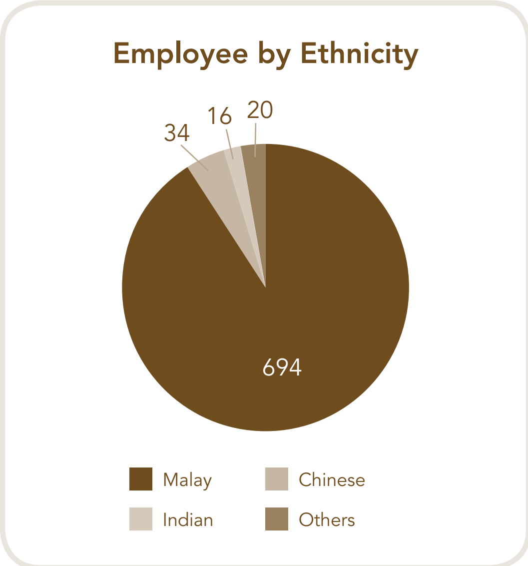
We have been engaging with our stakeholders through various methods.

Type	Activity
CSR	- Blood donation programmes in collaboration with Blood Bank HTAA, Kuantan. - *Gotong-royong* and donation programmes for a charity centre. - Food donations in aid of flood victims. - Fast breaking with the orphans of Permata Insyirah. - Donated funds to renovate classrooms in SK St Thomas. - *Gotong-royong* at Tabika Kemas, Balok Permai. This is a continuation of our CSR programme – *Green the Earth 2016*. The programme mainly focuses on tackling environmental issues with young children. We gave talks on environmental awareness to children and their parents, organised staff performances, and vegetable planting. - Donated funds to Sekolah Agama Rakyat at Taufiqiah, Taman Dato Rashid, for classroom maintenance.
Employee Benefits	- Fundraising in support of employees' welfare. - Provided disaster relief funds to two employees.

Workforce Diversity

As an organisation, we denounce all forms of discrimination and have implemented the relevant safeguards. Efforts include the establishment of our Employee Handbook, which clearly outlines the appropriate steps to be taken against discriminating actions. MIECO is proud to disclose that there was no report of discrimination in 2018. Nonetheless, we strive to continuously find opportunities to strengthen our anti-discrimination measures.





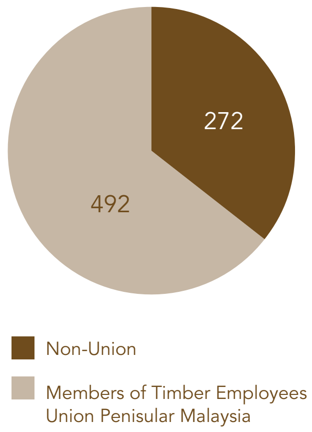
MIECO's staff are also members of the Timber Employees Union Peninsular Malaysia (TEUPM). We are a strong proponent of the unionisation of labour, which we believe is of paramount importance as it ensures adequate worker representation while under our employment. As at end-2018, about 64% of our employees were members of TEUPM. As in previous years, the committee members of TEUPM engage with the Group's senior management periodically, to identify material issues that affect employees' welfare.

Employee Training

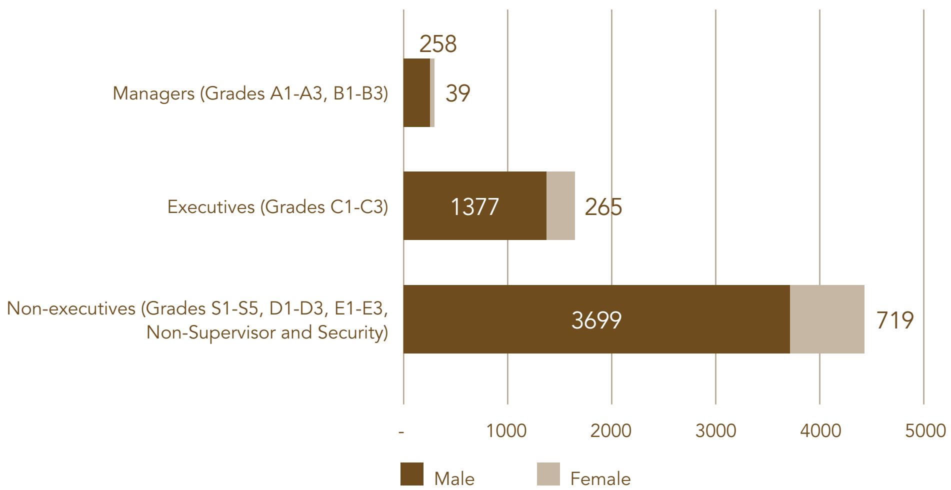
As an organisation that relies heavily on human capital in our operations, it is imperative that we manage capacity building in a comprehensive manner. MIECO provides the relevant training programmes to our employees, to ensure consistent, high-quality output. Moreover, our quality, environmental, operational safety and health (QEOSH) management system outlines specific provisions for continuous learning and development. Our training initiatives are focused on the following:

- Structured identification of training needs by superiors
- Induction programmes for new employees
- On-the-job training

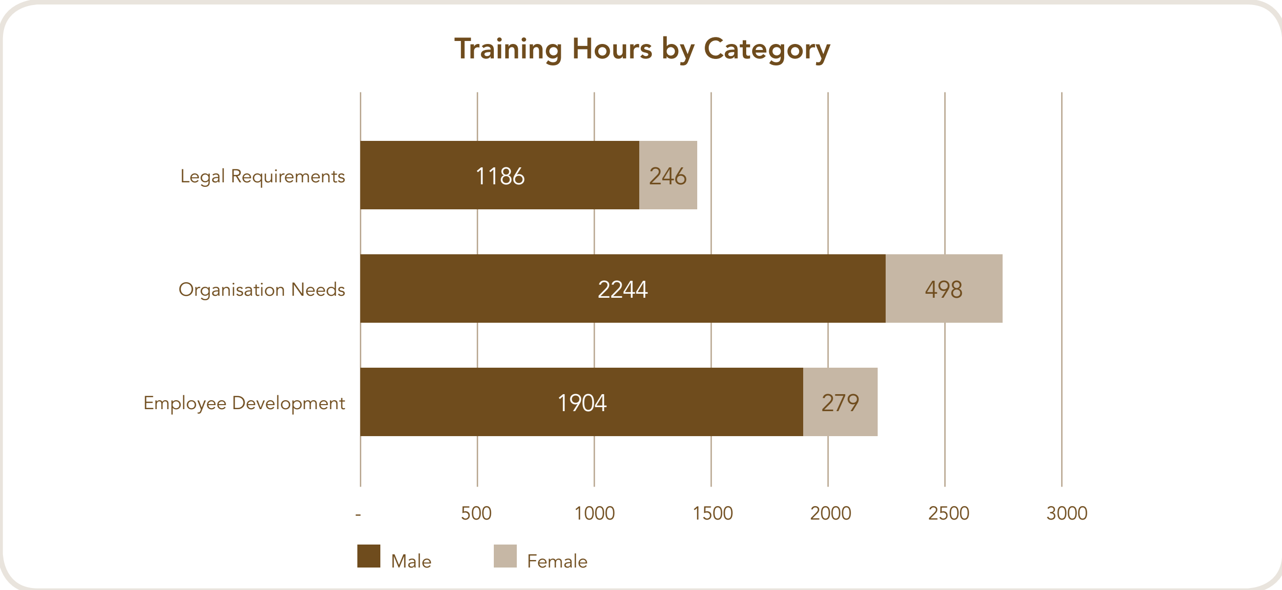
Employee by Unions

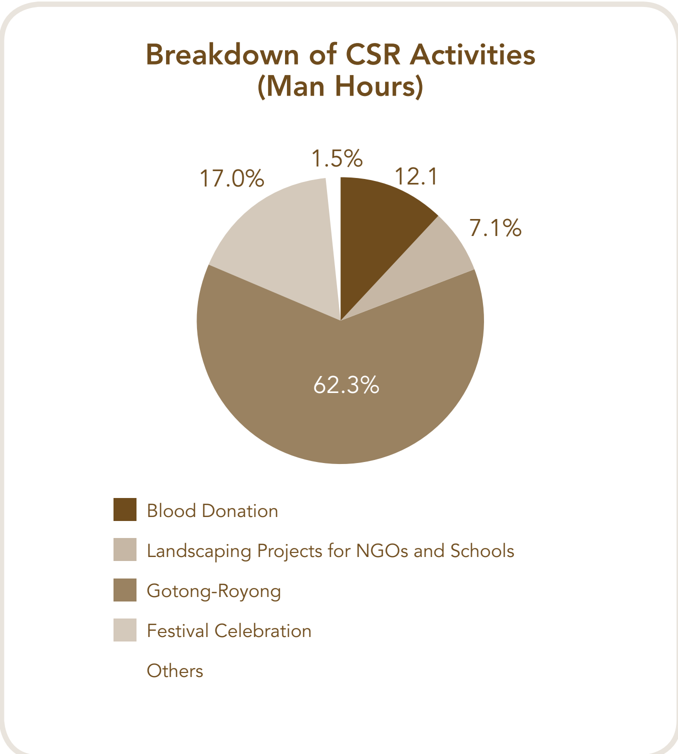


Employee Training Hours by Gender and Category



SUSTAINABILITY STATEMENT
(Cont'd)





Community Engagement

As a good corporate citizen, MIECO strives to aid the community in various ways. Our CSR programmes are spearheaded by the Human Resources Department. However, some programmes were also conducted in collaboration with the members of the Club, TEUPM, BAKES (Badan Kebajikan Pekerja-Pekerja Islam MIECO) and representatives from various department. In 2018, our CSR programmes took up 1,768 man hours.

Community
Gotong-Royong at Pusat Jagaan Anak Yatim & Fakir Miskin HKS, Taman Guru, Kuantan

Cheque Presentation *(Top to Bottom: Pusat Jagaan Anak Yatim & Fakir Miskin HKS, Permata Insyirah)*

Breaking Fast with Children at Permata Insyirah

Green the Earth & Gotong-Royong Programmes with Tabika Kemas, Balok Permai, Kuantan

Blood Donation Programmes in Gebeng and Lipis

Workplace
Disaster Relief for Mieco staff

Flood relief in Kuantan

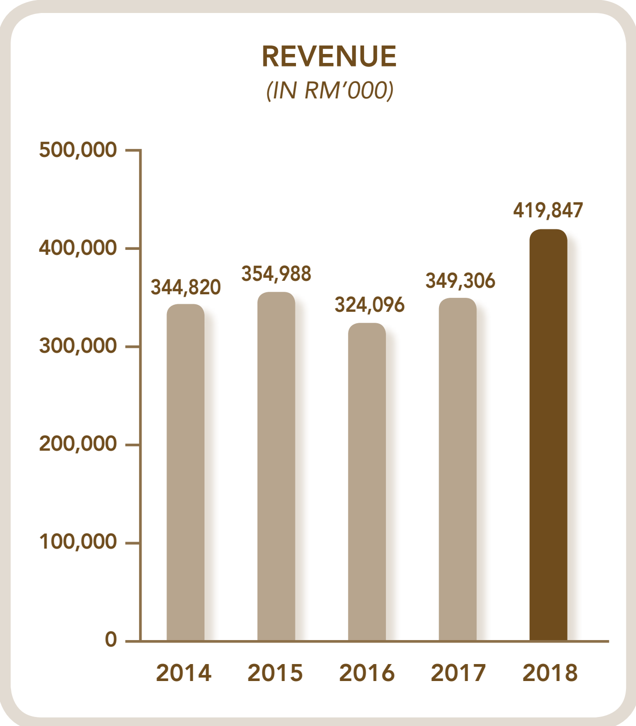
Financial relief from strong winds in Sg Ular

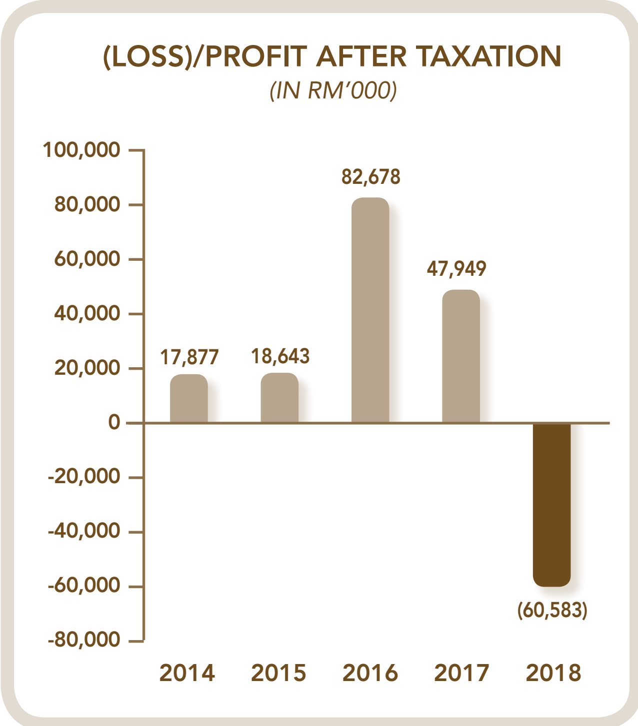
FINANCIAL HIGHLIGHTS
Financial Statistics 2014-2018

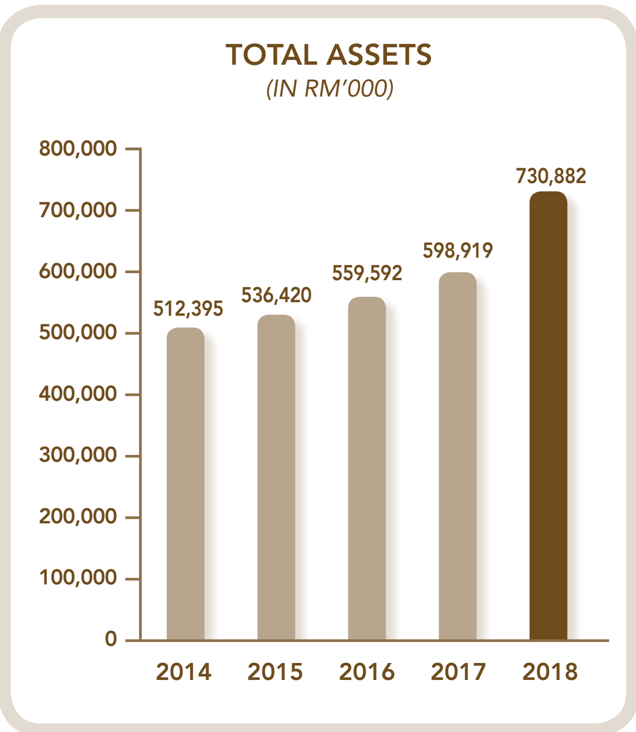
	2018 RM'000	2017 RM'000	2016 RM'000	2015 RM'000	2014 RM'000
ASSETS					
Non-Current assets					
Property, plant and equipment	561,634	435,160	413,293	402,018	400,868
Deferred tax assets	5,433	10,189	10,189	-	-
	567,067	445,349	423,482	402,018	400,868
Current assets	163,815	153,570	136,110	134,402	111,527
TOTAL ASSETS	730,882	598,919	559,592	536,420	512,395
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the Company					
Share capital	215,866	215,866	210,000	210,000	210,000
Reserves	123,038	186,849	165,766	82,209	63,567
Total equity	338,904	402,715	375,766	292,209	273,567
Non-current liabilities	152,631	59,081	57,618	58,738	56,210
Current liabilities	239,347	137,123	126,208	185,473	182,618
Total liabilities	391,978	196,204	183,826	244,211	238,828
TOTAL EQUITY AND LIABILITIES	730,882	598,919	559,592	536,420	512,395
GROUP RESULTS					
Revenue	419,847	349,306	324,096	354,988	344,820
(Loss)/Profit before taxation	(55,655)	48,026	72,519	18,643	19,441
Tax (expense)/credit	(4,928)	(77)	10,159	-	(1,564)
(Loss)/Profit after taxation	(60,583)	47,949	82,678	18,643	17,877
Dividend paid	(5,250)	(21,000)	-	-	-
SELECTED RATIOS *					
Basic (loss)/earnings per share (sen)	(11.54)	9.13	15.75	3.55	3.41
Proposed dividend per share (sen)	-	1.00	4.00	-	-
Net tangible assets per share (RM)	0.65	0.77	0.72	0.56	0.52

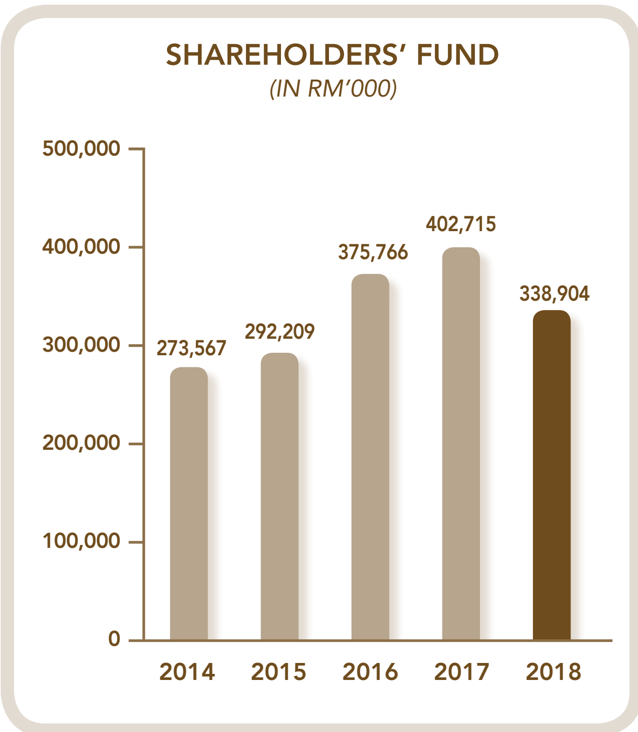
* The 2014 to 2016 selected ratios have been recomputed to reflect the share split exercise involving subdivision of 210,000,000 ordinary shares into 525,000,000 ordinary shares, completed in financial year ended 2017.

FINANCIAL HIGHLIGHTS
Financial Statistics 2014-2018 (Cont'd)

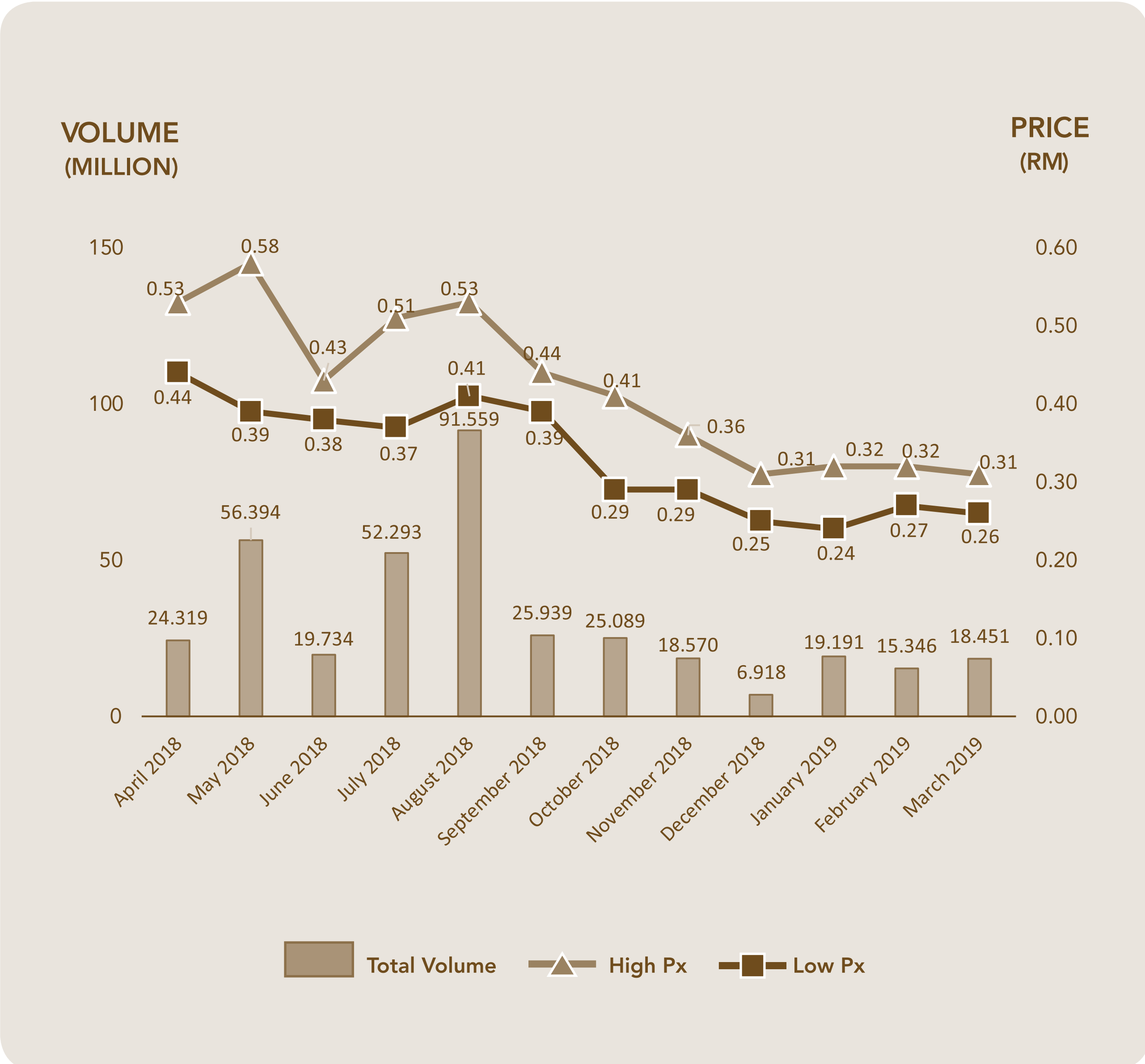








SHARE PERFORMANCE



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors of MIECO (the Board) acknowledges and takes cognisance of the new Malaysian Code on Corporate Governance 2017 (the "Code") which outlines practices that emphasise internalisation of corporate governance culture in companies. The Board is committed to maintain an appropriate and sound system of good corporate governance within the Group which are consistent with the principles and best practices recommended in the Code and other applicable laws, regulations and guidelines with the fundamental objective of protecting and enhancing shareholders' value and the financial performance of the Group as well the interests of stakeholders.

The Board is pleased to outline below the key aspects on how the Group has applied the principles and recommendations set out in the Code during the financial year under review.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

PART I – BOARD RESPONSIBILITIES

Functions of the Board and Management

The Board is overall responsible for the direction and control of the Group as it formulates policies, sets strategic directions and oversees the investments and operations of the Group.

In order for the Board to discharge its functions effectively, the Board has delegated certain functions to the committees to assist in the execution of its duties and responsibilities. These committees operate under clearly defined terms of reference and have authority to examine particular issues and the Chairman of the respective committees will report to the Board on the key issues deliberated and outcome of the committees meeting. These Board committees include the Audit Committee, Nomination Committee and Remuneration Committee.

Roles and Responsibilities

The Board assumes the following principal roles and responsibilities:

- formulating the business direction and objectives of the Group;
- reviewing, adopting and approving the Group's strategic plans, key operational initiatives, major investments and funding decisions;
- overseeing the conduct of business of the Group;
- reviewing the risk management process within the Group;
- assuming responsibility in succession planning within the Group; and
- reviewing and ensuring the adequacy and effectiveness of management information and internal control systems to ensure compliance with applicable standards, laws and regulations.

Management is accountable for the execution of the expressed policies and attainment of the Group's corporate objectives. The demarcation complements and reinforces the supervisory role of the Board.

Position of Chairman and Executive Directors

Division of roles between the Non-Executive Chairman and the Executive Directors is clearly defined to ensure that there is an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the effective running of the Board. He ensures that the Board receives sufficient and relevant information on financial and non-financial matters to enable them to participate actively in meetings. The Executive Directors are responsible for implementing the policies and decisions of the Board, overseeing the operations as well as coordinating the development and implementation of business and corporate strategies.

FOSTER COMMITMENT

Time Commitment and Board Meetings

The Directors are expected to give sufficient time and attention to carry out their responsibilities. Under the Board Charter, a Director is required to notify the Chairman before accepting any new directorship in any other listed company and the notification shall explain the expectation and an indication of the time commitment that will be spent on the new appointment. All the Directors hold not more than five directorships in public listed companies.

The Directors have demonstrated their ability to devote sufficient time and commitment to their roles and responsibilities.

Board meetings

The Board meets at least 5 times a year, with additional meetings for particular matters convened as and when necessary.

A total of 5 Board meetings were held during the financial year ended 31 December 2018. The attendance record of each Director is as follows:

Directors	Total Meetings Attended	Percentage of Attendance %
Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah *Independent Non-Executive Chairman*	4/5 *	80
Dato' Sri Ng Ah Chai *Group Managing Director*	5/5	100
Mr. Cheam Tow Yong *Independent Non-Executive Director*	5/5	100
Dato' Abdul Rashid Bin Mat Amin *Independent Non-Executive Director*	4/5	80
Mr. Kajendra A/L Pathmanathan *Non-Independent Non-Executive Director*	5/5	100
Mr. Ng Wei Ping, Keith *Executive Director*	5/5	100
Datuk Dr. Roslan Bin A. Ghaffar *Independent Non-Executive Chairman*	N/A **	N/A **

Notes :
* *Resigned on 18 February 2019.*
** *Appointed on 18 February 2019.*

All the Directors complied with the minimum 50% attendance requirement in respect of Board meetings held during the financial year ended 31 December 2018 as stipulated under Paragraph 15.05 of the Main Market Listing Requirements of Bursa Securities.

Additionally, in between Board meetings, the Directors also approved various matters requiring the sanction of the Board by way of circular resolutions.

Directors' Training

The Board takes cognisance of the importance of continuous training in keeping the Directors updated and informed on the changes and developments of operating environment and the corporate regulatory framework.

All the Directors have attended and completed the Mandatory Accreditation Programme (MAP). In addition to that, the Directors are briefed and updated at the quarterly meetings by the External Auditors, Internal Auditors and/or the Company Secretary on relevant amendments to the Listing Requirements, corporate governance practices and principles, risk management and internal control approaches, Malaysian Financial Reporting Standards as well as auditing requirements. The Directors also gained insights to the market development through constructive and active deliberations at the Board meetings.

The Directors, on their own efforts, continue to equip themselves with latest knowledge and updates on the business and economic environment via trade fairs, industrial periodicals, professional journals and attending the following:

- **Corporate Governance Briefing Sessions: MCCG Reporting & CG Guide**
- **Essentials of Share Capital Under Companies Act 2016**
- **S223 and S228 – Related Party Transactions Under the Companies Act 2016 Vis-A-Vis the Bursa's Listing Requirements**
- **Companies of the Future – The Role for Boards**

The Directors will, from time to time, assess the needs to enrol in formal, structured training programmes.

Qualified Company Secretary

The Board is supported by a licensed Company Secretary. The Company Secretary is to ensure that the Board procedures are adhered to at all times during meetings and advise the Board on matters, including corporate governance issues and Directors' responsibilities in complying with relevant legislation and regulations.

The Company Secretary attends all Board and Board Committee meetings to ensure that all deliberation of issues discussed and decisions/conclusions made are recorded accurately. The Company Secretary also work closely with the management to ensure timely flow of information to the Board.

On an ongoing basis, the Directors have separate and independent access to the Company Secretary.

Access to Information and Advice

The Directors are given adequate notice of Board meetings. Board papers together with the agenda are circulated prior to schedule board meetings, via emails or physical copies, to ensure sufficient time is given to the Directors to read the Board papers and seek any clarification that they may need from Management or to consult the Company Secretary or independent advisers, before the Board Meetings, if necessary. This enables the Directors to duly discharge their duties and ensure that deliberations at the meeting are focused and constructive.

The Board papers include reports on the Group's financial, operational, corporate developments and proposals. Senior management staff are invited to attend Board meetings to report on matters relating to their respective areas of responsibility and also to provide details or clarification on issues that may be raised by any Director.

All Directors have full and unrestricted access to senior management for advice and information, and support services of the Company Secretary in ensuring the effective functioning of the Board. The Directors may also seek independent professional advice in the furtherance of their duties at the Company's expense, if required, subject to the approval of the Board, and depending on the quantum of the fees involved.

DEMARCATION OF RESPONSIBILITIES

Code of Conduct and Ethics and Whistle Blowing Policy

The Board recognises the importance of the Code of Conduct and Ethics, with the intension in achieving the aims of cultivating good ethical behaviour that in turn promote the values of transparency, integrity, accountability and social responsibility.

The Board has adopted a Board Charter which sets out the principal roles and responsibilities of the Board and a Code of Conduct and Ethics for Directors that sets out the principles and standards of business ethics and conducts of the Group. The Group has also put in place a Whistle Blowing Policy which enables any employee and/or management of the Group to seek guidance and express concerns on the reporting of suspected and/or known misconduct, wrongdoings, corruption and instances of fraud, waste and/or abuse involving resources of the Group.

Strategies Promoting Sustainability

The Board is mindful of the importance of business sustainability and, in developing the corporate strategy of the Group, its impact on the environmental, social and governance aspects is taken into consideration. The Sustainability Statement of the Group for the financial year ended 31 December 2018 are disclosed on pages 13 to 25 of this Annual Report.

PART II - BOARD COMPOSITION

Board Composition

As at the date of this statement, the Board has six members, comprising one Independent Non-Executive Chairman, one Group Managing Director, one Executive Director, two Independent Non-Executive Directors and one Non-Independent Non-Executive Director. The Company is in compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities) which stipulates that at least one third of the Board members must be independent.

On 18 February 2019, Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah tendered her resignation as the Independent Non-Executive Chairman of the Company. In place thereof, Datuk Dr. Roslan Bin A. Ghaffar was appointed as the Independent Non-Executive Chairman to fill the vacancy.

The composition of the Board represents a balanced mix of experienced professionals in the fields of business, finance and general management. Together, the Directors bring a wide range of expertise and skills necessary for the continued successful direction of the Group. A brief profile of each Director is set out on pages 4 to 7 of this Annual Report.

Assessment of Independent Directors

The presence of the Independent Directors helps in providing independent and constructive views, advice and opinions to the benefits of the investors, customers, and other stakeholders. They also represent the element of objectivity, impartiality and independent judgement of the Board. This ensures there is adequate check and balance at the Board level.

Independent Directors are subject to an independence assessment prior to their appointments and annually thereafter. In this respect, the Board, through the Nomination Committee ("NC"), assesses the independence of its Independent Directors based on the criteria set out in the Main Market Listing Requirements of Bursa Securities. All the Independent Directors in office as at end of 2018 have reaffirmed their independence.

Tenure of Independent Directors

The Board is aware that the tenure of an Independent Non-Executive Director should not exceed a cumulative term of nine (9) years as recommended by the Code.

Upon completion of the nine (9) years, the Independent Non-Executive Director concerned may:

(i) Continue to serve on the Board if deemed appropriate and suitable by the Board, subject to him/her being re-designated as Non-Independent Director; or

(ii) Remain as an Independent Non-Executive Director if deemed appropriate and suitable by the Board, subject to the shareholders' approval. The Board must provide justification for the decision.

As of the date of this Annual Report, none of the Independent Non-Executive Directors has served a consecutive term of nine (9) years.

Gender, Ethnicity and Age Group Diversity Policy

The Company adheres to the practice of non-discrimination of any form throughout the Company as such does not set a specific target on the composition of the Board and management in terms of gender, age or ethnicity. The Company provides equal opportunity to candidates with merits and believes it is vital to recruit and retain the best available talent regardless of gender, ethnicity or age. The Board shall endeavour to achieve greater diversity as and when the opportunity arises. Notwithstanding the recommendation of the Code, the Board is presently of the view that there is no necessity to fix a specific gender diversity policy in view of the Company's commitment to ensuring that all Directors are appointed on merit and is in line with the standards as set out in Para 2.20A of the Main Market Listing Requirements.

Board Membership Criteria

In selecting a suitable candidate, the NC considers, among others, the candidate's qualification, experience and accomplishments, with the objective of having a Board with diverse backgrounds and experience in business. All Directors are expected to be individuals with integrity, high personal and professional ethics, sound business judgement, and the ability and willingness to commit sufficient time to the duties of the Board. The final decision on the appointment of a candidate nominated by the NC rests with the whole Board.

Nomination Committee

The Board has strived to apply the best practices of the Code by setting up a NC comprising exclusively three (3) Independent Non-Executive Directors.

The NC consists of the following members:

- Dato' Abdul Rashid Bin Mat Amin *(Chairman / Independent Non-Executive Director)*
- Mr. Cheam Tow Yong *(Member / Independent Non-Executive Director)*
- Datuk Dr. Roslan Bin A. Ghaffar * *(Member / Independent Non-Executive Chairman)*
- Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah ** *(Member / Independent Non-Executive Chairman)*

Notes :

* *Appointed on 18 February 2019.*

** *Resigned on 18 February 2019.*

The terms of reference of the NC can be viewed at the Company's website at www. mieco.com.my.

The NC is primarily responsible for the following:

(a) To oversee the overall composition of the Board in terms of appropriate size, required mix of skills, experience and core competencies;

(b) To consider, evaluate and recommend suitable candidates for appointment to the Board;

(c) To assess the performance and effectiveness of the Board and the contributions of each Director towards the effectiveness of the Board's decision making process. The assessment includes assessment of independence of the Independent Directors.

During the financial year under review, the activities carried out by the NC are as follows:

- Reviewed the overall composition of the Board in terms of the appropriate size, mix of skills, experience, core competencies and board balance;
- Reviewed and assessed the profile of a new candidate for appointment as a member of the Board, and recommended the candidate for appointment;
- Assessed the Board's performance and effectiveness as a whole;
- Assessed the performance of each individual Director;
- Assessed the independence of its Independent Directors; and
- Reviewed and recommended to the Board, the re-election and re-appointment of the Directors who will be retiring at the forthcoming Annual General Meeting of the Company.

Board Assessment

The NC has a formal assessment in place to assess the effectiveness of the Board as a whole, the Board Committees and the contribution of each individual Director. The assessment comprises the Board Assessment and Individual Self-Assessment. The assessment of the Board and Board Committees are based on specific criteria covering areas such as board structure, board operations, board roles and responsibilities and board chairman's roles and responsibilities. For individual assessment, criteria covering contribution to interaction, quality of input, understanding of role and board chairman's role were used.

Evaluations on the contribution of the Directors and the effectiveness of the Board and Board Committees were conducted by the NC for the financial year under review. The Board was satisfied with the performance and effectiveness of the Board as a whole, the Board Committees as well as the performance and contribution of each individual Director. The Board was also of the view that the present size and composition is optimal based on the Group's operations and that it reflects a fair mix of financial, technical and business experiences that are important to the stewardship of the Group.

PART III - REMUNERATION

Remuneration Policies

The Remuneration Committee (RC) comprises three Non-Executive Directors:

Dato' Abdul Rashid Bin Mat Amin *(Chairman / Independent Non-Executive Director)*
Mr. Cheam Tow Yong *(Member / Independent Non-Executive Director)*
Datuk Dr. Roslan Bin A. Ghaffar * *(Member / Independent Non-Executive Chairman)*
Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah **
(Member / Independent Non-Executive Chairman)

Notes :
* *Appointed on 18 February 2019.*
** *Resigned on 18 February 2019.*

CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

The terms of reference of the Remuneration Committee can be viewed at the Company's website at www.mieco.com.my.

The RC is responsible to formulate and review the policy framework and making recommendation to the Board on the annual remuneration packages and benefits extended to the executive members of the Board, taking into account the performance of each individual as well as corporate performance. The determination of the remuneration and benefits accorded to the Non-Executive Directors are linked to their level of responsibilities undertaken and contributions to the effective functioning of the Board.

Fees payable to Non-Executive Director are deliberated and decided by the Board as a whole before they are presented for approval by shareholders at the Annual General Meeting ("AGM"). Directors who are also shareholders of the Company abstain from voting at the AGM to approve their own fees. Similarly, Executive Directors are not involved in deciding their own remuneration.

In addition, the Directors have the benefit of Directors & Officers liability insurance in respect of any liabilities arising from their acts committed in their capacities as Directors and Officers of the Company. However, the said insurance policy does not indemnify a Director or Officer if he is proven to have acted fraudulently, or dishonestly, or in breach of his duty or trust. The details of the remuneration of Directors of the Company comprising remuneration received from the Company and subsidiary company during the financial year ended 31 December 2018 are as follows:-

	The Company				The Group		
	Fees RM'000	Salaries & Bonus RM'000	Others^ RM'000	Company Total RM'000	Salaries & Bonus RM'000	Others RM'000	Group Total RM'000
Executive Directors							
Dato' Sri Ng Ah Chai	-	2,875	-	2,875	-	-	-
Ng Wei Ping, Keith	-	477	-	477	-	-	-
Total	-	3,352	-	3,352	-	-	-
Non-Executive Directors							
Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah*	125	-	3	128	-	-	-
Cheam Tow Yong	48	-	6	54	-	-	-
Dato' Abdul Rashid Bin Mat Amin	41	-	4.5	45.5	-	-	-
Kajendra A/L Pathmanathan	36	-	6	42	-	-	-
Datuk Dr. Roslan Bin A. Ghaffar**	-	-	-	-	-	-	-
Total	250	-	19.5	269.5	-	-	-

There is no separate disclosure on the remuneration of the Senior Management as the Executive Directors formed the major component of Senior Management.

Notes :

^ *Comprise sitting allowance.*

* *Resigned on 18 February 2019.*

** *Appointed on 18 February 2019.*

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

PART I - AUDIT COMMITTEE

Audit Committee ("AC")

The position of Chairman of the AC and Board are held by different individuals. The AC is also comprised solely of Independent Directors. The details of the composition and activities of the AC are set out in the Audit Committee Report of this Annual Report.

Independence of External Auditors

The Board maintains a transparent and professional relationship with the external auditors through the AC. The AC invites the external auditors to attend its meetings as and when required. From time to time, the external auditors have highlighted to the AC matters that require the AC's attention. The AC will meet twice a year with the external auditors without any executive Board member present to enable exchange of views on issues requiring attention. The external auditors declare their independence annually to the AC as specified by the By-Laws issued by the Malaysian Institute of Accountants.

PART II - RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

Risk Management and Internal Control Framework

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard the investment of its shareholders and the Group's assets. The key features of the Group's system of risk management are set out in the Statement on Risk Management and Internal Control of this Annual Report.

Internal Audit Function

The Board has established an independent internal audit function that reports directly to the AC. This internal audit function is outsourced to an independent professional firm which is independent of the activities and operations of the Group. Details of the Group's internal control system and framework are set out in the Statement on Risk Management and Internal Control and the AC Report of this Annual Report.

Compliance with Applicable Accounting Standards

The Board strives to provide shareholders with a balanced and meaningful evaluation of the Group's financial performance, financial position and prospects through the annual audited financial statements, interim financial reports, annual report and announcements to Bursa Securities.

The interim financial reports, annual audited financial statements and annual report of the Group for the financial year ended 31 December are prepared in accordance with the Malaysian Financial Reporting Standards, Listing Requirements and the Companies Act, 2016. The Board is assisted by the Audit Committee in overseeing the financial reporting processes and ensuring the quality of its financial reporting.

The Directors' Responsibility Statement in respect of the preparation of the Annual Audited Financial Statements is set out on page 45 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

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

PART I - COMMUNICATION WITH SHAREHOLDERS

Communication with Stakeholders

The Board recognises the need for and the importance of clear and effective communication with shareholders, institutional investors and the investing public. The Group communicates with its shareholders and stakeholders regularly through timely release of financial results on a quarterly basis, Company's annual reports and other circulars to shareholders and where appropriate, ad hoc press statements which serve as the principal channel in keeping the shareholders and the investing public informed of the Group's major developments and overviews of financial performance and progress throughout the year.

The Group maintains a website at www.mieco.com.my where shareholders as well as members of public can access the latest information on the Company and on the business activities of the Group. Alternately, they may obtain the Company's latest announcements via the website of Bursa Securities at www.bursamalaysia.com.

PART II - CONDUCT OF GENERAL MEETINGS

Shareholders' Participation at General Meeting

The AGM represents the principal forum for dialogue and interaction with all shareholders. Shareholders are given the opportunity to participate in the question and answer session on the Group's operations and proposed resolutions. The Directors, senior management and the external auditors are available to respond to shareholders' queries during the AGM.

Shareholders who are unable to attend personally are allowed to appoint proxy/proxies to attend and vote on their behalf. Notice of the Annual General Meeting is circulated to the shareholders at least twenty-eight (28) days prior to the meeting.

Poll Voting

The Board is mindful of the poll voting requirement under Paragraph 8.29A of the Listing Requirements of Bursa Securities. The Board will implement poll voting for all the resolutions to be passed in the forthcoming Annual General Meeting. The Company will appoint one (1) scrutineer, who is independent of the Group and the person undertaking the polling process, to validate the votes casted.

COMPLIANCE STATEMENT

The Board recognises the importance of good corporate governance towards long term sustainability of the Group. To this end, the Board always strive to adopt the principles and recommendations promoted by the Code. Save as disclosed within this Annual Report, the Group has, and will continue to apply the principles and recommendations as set out in the Code where practical and appropriate.

This statement was approved by the Board at its meeting held on 26 March 2019.

ADDITIONAL CORPORATE DISCLOSURE

Utilisation of Proceeds

The Company did not raise funds through any corporate proposal during the financial year ended 31 December 2018 ("FY2018").

Recurrent Related Party Transactions

Details of recurrent related party transactions are disclosed in Note 28(b) to the audited financial statements set out on page 116 of this Annual Report, of which none of the aggregate value of the transactions conducted during the financial year exceeds the applicable prescribed threshold under paragraph 10.09(2)(b) of Main Market Listing Requirements of Bursa Securities.

Audit and Non-Audit Fees Paid

During the FY2018, the total audit and non-audit fees incurred by the Company and the Group are as follows:

	Mieco Chipboard Berhad (RM)	Mieco Chipboard Group (RM)
Audit Fees	60,000.00	252,000.00
Non-Audit Fees	-	-

Material Contracts

Save as disclosed below, there were no material contracts entered into by the Company or its subsidiary companies involving the interests of the Directors, Chief Executive who is not a Director or major shareholders in the financial year ended 31 December 2018 :-

On 26 July 2017, the Company entered into a conditional share sale agreement ("SSA") with SYF Resources Berhad for the proposed acquisition of the entire issued share capital of Great Platform Sdn Bhd ("**Proposed Acquisition**") and the proposed assumption of liabilities owing by Great Platform to SYF Resources Berhad ("**Proposed Assumption of Liabilities**") for a total purchase consideration of RM58,592,150, comprising a purchase consideration of RM7,063,341 for the Proposed Acquisition and RM51,528,809 for the Proposed Assumption of Liabilities, to be satisfied entirely via cash. The SSA was completed on 27 February 2018.

The above transaction was deemed as a related party transaction under Paragraph 10.08 of the Listing Requirements in view of the interests of Dato' Sri Ng Ah Chai and Ng Wei Ping in both Mieco Chipboard Berhad ("MIECO") and SYF Resources Berhad ("SYF").

Dato' Sri Ng was deemed interested in the above transaction by virtue of him being the Group Managing Director and major shareholder of MIECO. Dato' Sri Ng is also the Executive Chairman and Chief Executive Officer as well as the major shareholder of SYF.

Ng Wei Ping was deemed interested in the above transaction by virtue of him being appointed as the Executive Directors of both MIECO and SYF. He is the son of Dato' Sri Ng Ah Chai.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (Cont'd)

Contracts Relating To Loans

During the FY2018, there were no material contracts relating to loans entered into by the Company and its subsidiaries involving Directors, chief executive and/or major shareholders.

Insider Trading

During the FY2018, there was no insider trading reported.

AUDIT COMMITTEE REPORT

COMPOSITION OF AUDIT COMMITTEE

As at the date of this report, the Audit Committee (AC) comprises the following members:

Mr. Cheam Tow Yong *(Chairman/Independent Non-Executive Director)*
Dato' Abdul Rashid Bin Mat Amin *(Member/Independent Non-Executive Director)*
Datuk Dr. Roslan Bin A. Ghaffar *(Member/Independent Non-Executive Chairman)*

AUTHORITY AND DUTIES

The details of the terms of reference of the AC are available for reference at www.mieco.com.my.

MEETING ATTENDANCE

During the financial year ended 31 December 2018, five AC meetings were held. The Non-Independent Non-Executive Director and Senior Management attended all the AC meetings by invitation to brief the AC on specific issues. Internal auditors attended two of the AC meeting to present their internal audit reports. The external auditors were present at three of the AC meetings where matters relating to the audit of the statutory financial statements were discussed. The AC held two private discussions with the external auditors without the presence of the executive management.

Details of attendance of the AC members are as follows:

Directors	Total Meetings Attended	Percentage of Attendance %
Mr. Cheam Tow Yong *Independent Non-Executive Director*	5/5	100
Dato' Abdul Rashid Bin Mat Amin *Independent Non-Executive Director*	4/5	80
Datuk Dr. Roslan Bin A Ghaffar *Independent Non-Executive Chairman (Appointed on 18 February 2019)*	Not Applicable	Not Applicable
Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah *Independent Non-Executive Chairman (Resigned on 18 February 2019)*	4/5	80

The AC Chairman has conveyed to the Board matters of significant concern raised by the external auditors and internal auditors. Confirmed minutes of AC meetings were also circulated to the Board for information.

SUMMARY OF ACTIVITIES

The AC has carried out its duties in accordance with its terms of reference during the financial year ended 31 December 2018. The activities carried out by the AC included the following:

(a) reviewed the quarterly unaudited financial results of the Group before recommending them to the Board for approval and subsequent release of the results to Bursa Malaysia Securities Berhad;

(b) reviewed the annual audited financial statements of the Group with the external auditors before recommending to the Board for approval. There was focus on changes on adjustments/issues affecting the audit. The external auditors' report on the significant audit and accounting issues arising from their audit as well as the accompanying management responses/resolutions were also reviewed by the AC;

(c) reviewed the audit plan with the external auditors, in terms of the key areas of audit emphasis, significant accounting and auditing issues, as well as the impact of the new or proposed changes in the accounting standards and regulatory requirements;

(d) met with the external auditors twice without the presence of any executive board members or management, to discuss issues arising from their audit including management cooperation in the audit process, financial reporting issues, operations and for sharing of information;

(e) reviewed the annual risk-based internal audit plan proposed by the internal auditors to ensure adequate scope and coverage of their activities and key risk areas are adequately identified and covered;

(f) reviewed internal audit reports presented by internal auditors, especially with regard to the issues raised, audit recommendations and management's responses. Where necessary, the AC has directed action to be taken by management to rectify and improve the system of internal controls and procedures;

(g) reviewed recurrent related party transactions of the Group; and

(h) reviewed and approved the Audit Committee Report for inclusion in the Company's Annual Report.

INTERNAL AUDIT FUNCTION

The AC is supported by an internal audit (IA) function which is outsourced to an independent professional firm which is independent of the activities and operations of the Group. The IA function provides independent and objective review on the state of internal control and compliance with the Group's policies and procedures in accordance with the annual risk-based internal audit plan approved by the AC. The IA function assists the AC in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance process.

During the financial year ended 31 December 2018, the outsourced IA, namely Messrs Raja Salleh, Lim & Co. has carried out audit review on internal control, policy and procedures of the Group. Areas of audit included Follow Up Review on Maintenance and Spare Parts of Machineries Procedures and Procurement Processes. The resulting report of the audits undertaken, incorporating audit recommendations and management's responses were presented at the quarterly AC meeting for the AC's deliberation and issued to the management of the respective operating units concerned for appropriate remedial actions to be taken to improve the relevant systems and procedures within the agreed timelines. The senior management were present in the AC meeting to explain and clarify on the actions taken to rectify the audit issues highlighted.

There were no material losses incurred during the financial year as a result of weaknesses in the system of internal control and management continues to take appropriate measures to strengthen and enhance the adequacy and effectiveness of the control environment.

Total costs incurred for the IA function of the Group for the financial year ended 31 December 2018 amounted to RM26,000.00.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

Pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements, the Board of Directors of Mieco Chipboard Berhad is pleased to provide the following Statement on Risk Management and Internal Control of the Group, which had been prepared in accordance with the "Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers".

RESPONSIBILITY

The Board affirms its overall responsibility for maintaining an adequate and sound risk management and internal control system within the Group and for reviewing its adequacy and integrity of such system on a regular basis to safeguard shareholders' investment and the Group's assets. However, in view of the inherent limitations in any such system, the risk management and internal control system is designed to manage rather than to eliminate the risk of failure to achieve business objectives. Hence, the risk management and internal control system can only provide a reasonable combination of preventive, detective and corrective measures but not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

Whilst the Board maintains responsibility over risk and control issues, management is responsible for implementing policies, procedures and guidelines on risk and control by identifying and evaluating the risks faced and design, operate and monitor a suitable system of internal control to manage these risks.

The effectiveness of the system of risk management and internal control may vary over time due to the changing circumstances and conditions of the Company and the Group. Nevertheless, the Board recognises that the system of risk management and internal control should be continuously maintained, monitored and improved with appropriate actions taken to address identified control deficiencies and emerging risks.

RISK MANAGEMENT

The Board recognises that risk management is an integral part of the Group's business operations and that the identification and management of such risks are important to ensure the achievement of the Group's corporate objectives.

Regular meetings of the Board, Board committees and management represent the main platform by which the Group's performance and conduct are monitored. The senior management teams are empowered with the responsibility of managing their respective operations. Through regular operational meetings, the senior management teams identify, discuss and deal with operational, financial and key management issues. Significant risks identified are escalated to the attention of the Board. The Board is responsible for setting the business directions and overseeing the conduct of the Group's operations. With the assistance of the internal audit (IA) function, the Board, through the Audit Committee (AC), continuously reviews the adequacy, effectiveness and integrity of the risk management processes in place within the various operating businesses. The AC also reviews and deliberates on any matters relating to internal controls highlighted by the external auditors in the course of their statutory financial audit of the Group. Through these mechanisms, the Board is informed of all major control issues pertaining to internal controls, regulatory compliance and risk taking.

INTERNAL AUDIT FUNCTION

The Group's IA function is carried out by an independent professional service firm. The principal duty and responsibility of IA is to examine and evaluate the adequacy and effectiveness of the Group's system of internal control, risk management process and compliance framework on behalf of the Board.

The outsourced IA function adopts a risk-based approach in developing its audit plan which addresses all the core auditable areas of the Group based on their risk profile. The IA function provide the AC with the results of the internal audit reviews together with IA's recommendations for improvement, management's response and corrective actions taken or to be taken by management with regard to the weaknesses highlighted. Follow ups will be carried out by the IA function should there be unresolved findings and the status of actions taken by management will be reported to the AC. Based on the internal audit reviews carried out, none of the weaknesses noted by the IA function have resulted in any material losses, contingency or uncertainties that would require disclosure in this Annual Report.

KEY ELEMENTS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Group has adopted an ongoing risk management process for identifying, evaluating, monitoring and managing significant risks affecting the achievements of its business objectives.

The key elements of the Group's risk management and internal control system are set out below.

- The Board is supported with several established Board committees in the execution of its responsibilities namely the AC, Nomination and Remuneration Committees. Each Committee has clearly defined terms of reference. These committees have the authority to examine all matters within their scope and report to the Board with their recommendations.

- There is an organisational structure with formally defined lines of responsibility and delegation of authority to ensure proper identification of accountabilities and segregation of duties.

- The Group has clear and formally defined approving authority limits and authorisation procedures, which is the primary instrument that governs and manages the business decisions making process within the Group. It also ensures that a system of internal control and checks and balances are incorporated therein. The Authority Chart is periodically reviewed and updated to reflect changes in the business, operational and organisational environment.

- There are documented standard operating policies and procedures covering the critical and significant facets of the Group's business processes and they form an integral part of the internal control framework to safeguard shareholders' investment and the Group's assets against material loss. These areas include manufacturing, human resource, information technology, sales, financial and credit management as well as occupational safety, health and environment. These policies and procedures are reviewed and updated from time to time to meet the operational needs.

- Common Group policies are available on MIECO's intranet for easy access by staff. The intranet is used as an effective means of communication and knowledge sharing at all levels.

- Human resource policies and guidelines are established to provide support to the Group's vision. These policies provide guidance to employees on areas such as discipline, employee performance appraisals and other related matters. Ongoing training and development programmes are conducted to improve and enhance employees' competencies and skills.

- The Group continues to maintain MIECO Quality Management System, Environmental Management System and Occupational Health and Safety Management System certifications. Such quality management systems provide the Group with an improved control of key processes and a foundation for improving quality, customer service and customer satisfaction. The business operations of the Group are also governed by various regulations and laws applicable to the wood industry. Compliance audits are conducted by various independent bodies for the various certifications and licenses obtained from the local governmental authorities and international certification bodies.

- There are adequate insurance coverage and physical safeguards on major assets to ensure that the assets of the Group are sufficiently covered against any mishap that could result in a material loss. A yearly policy renewal exercise is undertaken by management to review the relevance and adequacy of the insurance coverage. There is also a Directors & Officers insurance coverage for the Directors and Officers of the Group.

- The Group operates an Enterprise Resource Planning system which enables transactions to be captured, compiled and reported in a timely and accurate manner. Information systems in the Group provide management with data, analyses, variations, exceptions and other inputs relevant to the Group's performance. Internal control requirements are also embedded in the Group's computerised systems as well.

- The Group has put in place a whistleblowing policy which allows, supports and encourages its employees and third parties to report and disclose any improper or illegal activities within the Group. It is the Group's commitment to investigate any suspected serious misconduct or any breach reported, as well as to protect those who come forward to report such activities.

WEAKNESSES IN INTERNAL CONTROLS THAT RESULT IN MATERIAL LOSSES

During the financial year under review, some areas for improvement in the risk management and internal control system were detected. Management has attended to the issues raised and has taken appropriate measures to address the areas for improvement that have been highlighted. The issues raised were mainly operational and have negligible impact on the operational results of the Group.

The monitoring, review and reporting arrangements in place to provide reasonable assurance that the structure of control and its operations are appropriate to the Group's operations and that risks are at an acceptable level throughout the Group's businesses. Such arrangements, however, do not eliminate the possibility of human error, deliberate circumvention of control procedures by employees and others or the occurrence of unforeseen circumstances.

The Board recognises the need for the risk management and internal control system to be subject to periodic review in line with the growth and dynamics of the Group. To this end, the Board remains committed towards striving for continuous improvement to put in place appropriate action plans where necessary, to further enhance the risk management and internal control system of the Group.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 Of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit & Assurance Practice Guide 3 ("AAPG 3") issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk and internal control systems of the Group. Based on the review, the external auditors have reported to the Board that nothing has come their attention that causes them to believe that the statement is inconsistent with their understanding of the processes adopted by the Board in reviewing the adequacy and integrity of the risk management and internal control system within the Group.

CONCLUSION

The Board has received assurance from the senior management that the Group's risk management and internal control system is operating adequately and satisfactorily, in all material aspects, based on the risk management and internal control system of the Group. The Board is of the view that the risk management and internal control system in place for the year under review and up to the date of the issuance of the financial statements is adequate and effective to safeguard the shareholders' investment, the interests of customers, regulators and employees, and the Group's assets.

This Statement was approved by the Board at its meeting held on 26 March 2019.

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE ANNUAL AUDITED FINANCIAL STATEMENTS

The Directors are required by the Companies Act 2016 (CA) to prepare financial statements for each financial year which have been made out in accordance with the requirements of the applicable approved Malaysian Financial Reporting Standards, International Financial Reporting Standards, the provisions of the CA and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Company are prepared with reasonable accuracy from the accounting records of the Group and the Company so as to give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year, and of the results and cash flows of the Group and the Company for the financial year.

In preparing the annual audited financial statements, the Directors have:

- adopted appropriate and relevant accounting policies which are consistently applied;
- made judgements and estimates that are reasonable and prudent; and
- prepared the audited financial statements on a going concern basis.

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

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors hereby submit their annual report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services.

The information on the name, place of incorporation, principal activities, and percentage of issued share capital held by the Company in each subsidiary is as disclosed in Note 7 to the financial statements.

RESULTS

The results of the Group and of the Company for the financial year are as follows:

	Group RM'000	Company RM'000
Loss before taxation	(55,655)	(838)
Tax expense	(4,928)	0
Net loss for the financial year	(60,583)	(838)

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 other than the impairment of property, plant and equipment as disclosed in the financial statements.

DIVIDENDS

On 26 February 2018, the Directors declared an interim single-tier dividend of 1 sen per share on 525,000,000 ordinary shares, amounting to RM5,250,000 in respect of the financial year ended 31 December 2017. The dividend was paid on 27 April 2018.

The Directors do not recommend any dividends payment in respect of the current financial year.

RESERVES AND PROVISIONS

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

DIRECTORS

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

Dato' Sri Ng Ah Chai	
Dato' Abdul Rashid Bin Mat Amin	
Cheam Tow Yong	
Kajendra A/L Pathmanathan	
Ng Wei Ping	
Y.A.M. Tengku Puteri Seri Kemala Pahang Tengku Aishah Binti Sultan Haji Ahmad Shah	(resigned on 18 February 2019)
Datuk Dr. Roslan Bin A. Ghaffar	(appointed on 18 February 2019)

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

Dato' Sri Ng Ah Chai	
Kevin Quek Kian Kee	
Lim Kar Hor	
Ng Wei Ping	
Ng Geok Lian	
Ng Tien Ying	
Dato' Sri Chee Hong Leong	(resigned on 13 March 2018)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement subsisted to which the Company was a party, being arrangements with the object or objects 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.

Since the end of the previous financial year, none of the Directors of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate of emoluments received or due and receivable by Directors as disclosed in Note 26 to the financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he or she is a member, or with a company in which he or she has a substantial financial interest except for any benefit which may be deemed to have arisen by virtue of the transactions between the Company and certain companies in which certain Directors of the Company are also Directors and/or shareholders as disclosed in Note 28 to the financial statements.

DIRECTORS' INTERESTS

The interests in shares in the Company of those who were Directors at the end of the financial year according to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016 are as follows:

Shares Held in the Company

	Number of ordinary shares			
	At 1.1.2018	Bought	Sold	At 31.12.2018
Direct interest				
Dato' Sri Ng Ah Chai	298,045,137	0	0	298,045,137
Cheam Tow Yong	750,000	0	750,000	0

None of the other Directors in office at the end of the financial year held shares or had beneficial interest in the shares of the Company or its related corporation during or at the beginning and end of the financial year.

INDEMNITY AND INSURANCE FOR DIRECTORS AND OFFICERS

The Company maintains Directors and Officers liability insurance for purposes of Section 289 of the Companies Act, 2016, throughout the year, amounting to RM10,000,000, which provides appropriate insurance cover for the Directors and officers of the Company and its subsidiaries. The amount of insurance premium paid during the year amounted to RM17,100 (excluding goods and service tax and stamp duty).

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, 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 satisfied themselves that no known bad debts need to be written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of 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 require the writing off of bad debts or render the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; 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 which 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 of the Group and of the Company which would render any amount stated in the financial statements misleading.

OTHER STATUTORY INFORMATION (CONT'D)

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 liability of any other person; or

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

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, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations when they fall due.

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

SUBSEQUENT EVENT

Details of subsequent event are as disclosed in Note 33 to the financial statements.

AUDITORS' REMUNERATION

The amount paid/payable as remuneration of the auditors for the financial year ended 31 December 2018 is as disclosed in Note 22 to the financial statements.

AUDITORS

The auditors, Deloitte PLT, have indicated their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with a resolution dated 19 April 2019.

DATO' SRI NG AH CHAI
DIRECTOR

NG WEI PING
DIRECTOR

STATEMENTS OF FINANCIAL POSITION
As At 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	6	561,634	435,160	1	1
Investment in subsidiaries	7	0	0	57,139	50,075
Amount due from subsidiaries	8	0	0	306,868	332,337
Deferred tax assets	9	5,433	10,189	0	0
		567,067	445,349	364,008	382,413
CURRENT ASSETS					
Inventories	10	63,564	68,945	0	0
Receivables, deposits and prepayments	11	76,277	66,083	114	843
Amount due from subsidiaries	8	0	0	18,942	14,376
Tax recoverable		405	356	316	316
Derivative financial instruments	19	34	50	0	0
Cash and bank balances	12	23,535	18,136	214	247
		163,815	153,570	19,586	15,782
TOTAL ASSETS		730,882	598,919	383,594	398,195

STATEMENTS OF FINANCIAL POSITION
As At 31 December 2018 (Cont'd)

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Share capital	13	215,866	215,866	215,866	215,866
Reserves	14	123,038	186,849	130,952	136,787
TOTAL EQUITY		338,904	402,715	346,818	352,653
NON-CURRENT LIABILITIES					
Employee defined benefit plan	15	12,631	13,072	401	557
Other payables	18	400	721	0	0
Amount due to former immediate holding company	17	17,252	30,543	17,252	30,543
Borrowings	16	119,802	14,745	0	0
Deferred tax liabilities	9	2,546	0	0	0
		152,631	59,081	17,653	31,100
CURRENT LIABILITIES					
Trade and other payables	18	108,045	61,173	911	1,140
Amount due to subsidiaries	8	0	0	3,426	3,426
Amount due to former immediate holding company	17	14,786	9,876	14,786	9,876
Borrowings	16	116,516	66,074	0	0
		239,347	137,123	19,123	14,442
TOTAL LIABILITIES		391,978	196,204	36,776	45,542
TOTAL EQUITY AND LIABILITIES		730,882	598,919	383,594	398,195

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Financial Year Ended 31 December 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Revenue	20	419,847	349,306	5,324	3,633
Changes in inventories of finished goods and work-in-progress		(24,552)	22,251	0	0
Raw materials and consumables used		(232,142)	(194,541)	0	0
Purchase of packing materials		(2,152)	(2,690)	0	0
Staff costs	21	(41,583)	(34,713)	(5,172)	(3,282)
Hiring of vehicles and equipment		(1,509)	(3,641)	0	0
Shipping and handling expenses		(27,648)	(20,472)	0	0
Upkeep, repairs and maintenance of assets		(17,681)	(19,724)	(5)	(4)
Utilities		(42,774)	(27,865)	0	0
Depreciation of property, plant and equipment		(26,824)	(17,679)	0	(8)
(Impairment)/write back of impairment of property, plant and equipment		(26,076)	12,054	0	0
Other expenses		(19,957)	(13,530)	(985)	(1,685)
Goodwill written off		(306)	0	0	0
Other operating income		1,148	3,419	0	0
(Loss)/Profit from operations	22	(42,209)	52,175	(838)	(1,346)
Finance costs	23	(13,744)	(4,468)	0	0
Finance income	23	298	319	0	0
(Loss)/Profit before taxation		(55,655)	48,026	(838)	(1,346)
Tax expense	24	(4,928)	(77)	0	(4)
Net (loss)/profit for the financial year		(60,583)	47,949	(838)	(1,350)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Financial Year Ended 31 December 2018 (Cont'd)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Actuarial gain on employee defined benefit plan	15	2,022	0	253	0
Other comprehensive income for the financial year		2,022	0	253	0
Total comprehensive (loss)/income for the financial year		(58,561)	47,949	(585)	(1,350)
Net (loss)/profit attributable to owners of the Company		(60,583)	47,949	(838)	(1,350)
Total comprehensive (loss)/income attributable to owners of the Company		(58,561)	47,949	(585)	(1,350)
Basic (loss)/earnings per share (sen)	25	(11.54)	9.13		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Financial Year Ended 31 December 2018

	Attributable to owners of the Company					
	Issued and fully paid ordinary shares		Non-distributable		Distributable	
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Foreign currency reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017	210,000	210,000	5,866	(43)	159,943	375,766
Total comprehensive income:						
- Net profit for the financial year	0	0	0	0	47,949	47,949
Effects of share split (Note 13)	315,000	0	0	0	0	0
Transfer arising from "no par value" regime (Note 13)	0	5,866	(5,866)	0	0	0
Dividend paid in respect of financial year ended 31 December 2016	0	0	0	0	(21,000)	(21,000)
At 31 December 2017	525,000	215,866	0	(43)	186,892	402,715
At 1 January 2018	525,000	215,866	0	(43)	186,892	402,715
Total comprehensive (loss)/income:						
- Net loss for the financial year	0	0	0	0	(60,583)	(60,583)
- Actuarial gain on employee defined benefit plan	0	0	0	0	2,022	2,022
Dividend paid in respect of financial year ended 31 December 2017	0	0	0	0	(5,250)	(5,250)
At 31 December 2018	525,000	215,866	0	(43)	123,081	338,904

COMPANY STATEMENT OF CHANGES IN EQUITY
For The Financial Year Ended 31 December 2018

	Issued and fully paid ordinary shares		Non-distributable	Distributable	
	Number of shares '000	Nominal value RM'000	Share premium RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017	210,000	210,000	5,866	159,137	375,003
Total comprehensive loss:					
- Net loss for the financial year	0	0	0	(1,350)	(1,350)
Effects of share split (Note 13)	315,000	0	0	0	0
Transfer arising from "no par value" regime (Note 13)	0	5,866	(5,866)	0	0
Dividend paid in respect of financial year ended 31 December 2016	0	0	0	(21,000)	(21,000)
At 31 December 2017	525,000	215,866	0	136,787	352,653
At 1 January 2018	525,000	215,866	0	136,787	352,653
Total comprehensive (loss)/income:					
- Net loss for the financial year	0	0	0	(838)	(838)
- Actuarial gain on employee defined benefit plan	0	0	0	253	253
Dividend paid in respect of financial year ended 31 December 2017	0	0	0	(5,250)	(5,250)
At 31 December 2018	525,000	215,866	0	130,952	346,818

STATEMENTS OF CASH FLOWS
For The Financial Year Ended 31 December 2018

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Net (loss)/profit for the financial year	(60,583)	47,949	(838)	(1,350)
Adjustments for:				
Depreciation of property, plant and equipment	26,824	17,679	0	8
Gain on disposal of property, plant and equipment	(1)	(248)	0	0
Write off of property, plant and equipment	16	160	0	0
Allowance/(Write back of allowance) for inventories obsolescence	740	(354)	0	0
Debt waiver	0	0	0	65
Finance costs	13,744	4,468	0	0
Finance income	(298)	(319)	0	0
Provision for employee defined benefit plan	1,919	1,533	128	102
Fair value loss/(gain) on derivative financial instruments	16	(317)	0	0
Unrealised (gain)/loss on foreign exchange	(411)	1,325	0	0
Tax expense	4,928	77	0	4
Impairment/(Write back of impairment) of property, plant and equipment	26,076	(12,054)	0	0
Write off of inventories	315	0	0	0
Goodwill written off	306	0	0	0
	13,591	59,899	(710)	(1,171)
Changes in working capital:				
(Increase)/Decrease in inventories	23,467	(28,413)	0	0
(Increase)/Decrease in receivables	(2,365)	(8,742)	729	(706)
Increase/(Decrease) in payables	24,773	(23,486)	(229)	(46)
	59,466	(742)	(210)	(1,923)
Employee defined benefit paid	(338)	(1,003)	(31)	(119)
Tax refunded/(paid)	(84)	143	0	0
Net cash flows generated from/(used in) operating activities	59,044	(1,602)	(241)	(2,042)

STATEMENTS OF CASH FLOWS

For The Financial Year Ended 31 December 2018 (Cont'd)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	6	(24,290)	(27,708)	0	0
Interest received		298	319	0	0
Settlement of liabilities	7	(51,529)	0	0	0
Net cash outflows on acquisition	7	(5,449)	0	(7,064)	0
Repayment from subsidiary		0	0	20,903	35,889
Proceeds from disposal of property, plant and equipment		2	304	0	0
Placement of fixed deposit with licensed bank		(5,483)	(5,019)	(6)	(6)
Net cash flows (used in)/generated from investing activities		(86,451)	(32,104)	13,833	35,883
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Net proceeds from/(repayment of):					
- hire purchase obligations		(411)	425	0	0
- term loans		34,857	16,605	0	0
- overdraft facility		0	(2,282)	0	0
- banker acceptance		18,542	23,900	0	0
- revolving credit		0	10,000	0	0
Interest paid		(13,744)	(4,468)	0	0
Repayment of amount due to former immediate holding company		(8,381)	(12,793)	(8,381)	(12,793)
Dividend paid		(5,250)	(21,000)	(5,250)	(21,000)
Net cash flows generated from/(used in) financing activities		25,613	10,387	(13,631)	(33,793)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,794)	(23,319)	(39)	48
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		12,164	35,483	57	9
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	12	10,370	12,164	18	57

1 GENERAL INFORMATION

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

The principal activities of the Company are investment holding and provision of management services.

The information on the name, place of incorporation, principal activities, and percentage of issued share capital held by the Company in each subsidiary is as disclosed in Note 7.

The address of the registered office is No.1, Block C, Jalan Indah 2/6, Taman Indah, Batu 11, 43200 Cheras, Selangor Darul Ehsan.

The addresses of the principal place of business are as follows:

(a) No.1, Block C, Jalan Indah 2/6, Taman Indah, Batu 11, 43200 Cheras, Selangor Darul Ehsan;

(b) Lot 74, Kawasan Perindustrian Gebeng, 26080 Kuantan, Pahang Darul Makmur.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 19 April 2019.

2 BASIS OF PREPARATION

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

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2.1 Adoption of new and revised Malaysian Financial Reporting Standards

In the current financial year, the Group and the Company adopted all the new and revised MFRSs and amendments to MFRSs and Issues Committee Interpretation ("IC Interpretation") issued by the Malaysian Accounting Standards Board that are effective for annual financial periods beginning on or after 1 January 2018.

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 2	Classification and Measurements of Share-based Payment Transactions
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 140	Transfer of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to MFRSs 2014 – 2016 Cycle	

2 BASIS OF PREPARATION (CONT'D)

2.1 Adoption of new and revised Malaysian Financial Reporting Standards (cont'd)

The adoption of these new and revised MFRSs, Amendments to MFRS and IC Interpretation did not result in significant changes in the accounting policies of the Group and of the Company and had no significant effect on the financial performance or position of the Group and of the Company except for the adoption of MFRS 9 and MFRS 15 as disclosed below:

Impact of initial application of MFRS 9

In the current year, the Group and the Company applied MFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other MFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of MFRS 9 allow an entity not to restate comparatives.

The Group and the Company have elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's and the Company's previous accounting policy as disclosed in Note 3.

Classification and measurement of financial assets

With regard to the revised classification and measurement principles, MFRS 9 contains three classification categories of 'measured at amortised cost', 'fair value through other comprehensive income' ("FVTOCI") and 'fair value through profit or loss' ("FVTPL"). MFRS 9 eliminates the existing MFRS 139 categories of 'loans and receivables', 'held-to-maturity' and 'available-for-sale'. This new classification only means that the assets currently classified as available-for-sale will be measured at FVTOCI which constitutes no significant change, except for the accounting for cumulative gains or losses when equity securities measured at FVTOCI are disposed of. These cumulative gains or losses will not be recognised in the statement of profit or loss and other comprehensive income upon disposal but kept in the fair value reserve. The Group and the Company have no investments classified as held-to-maturity and the other categories involve no change in measurement for the Group and the Company.

Impairment

In relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. With regard to the impact of the expected loss model on trade receivables and advances to customers, the application of expected credit loss model of MFRS 9 has had no material impact to the Group and the Company's financial statements.

General hedge accounting

The new hedge accounting requirements of MFRS 9 retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about any entity's risk management activities have also been introduced. The application of MFRS 9 has had no other impact on the results and financial position of the Group and the Company for the current and prior years as the Group and the Company did not adopt hedge accounting.

2 BASIS OF PREPARATION (CONT'D)

2.1 Adoption of new and revised Malaysian Financial Reporting Standards (cont'd)

Classification and measurement of financial liabilities

One major change introduced by MFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, MFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The application of MFRS 9 has had no impact on the classification and measurement of the Group's and the Company's financial liabilities as the Group and the Company have no financial liabilities designated at FVTPL.

Impact of Application of MFRS 15 Revenue from Contracts with Customers

In the current year, the Group and the Company applied MFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018.

The core principle of MFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1 : Identify the contract(s) with a customer
Step 2 : Identify the performance obligations in the contract
Step 3 : Determine the transaction price
Step 4 : Allocate the transaction price to the performance obligations in the contract
Step 5 : Recognise revenue when (or as) the entity satisfies a performance obligation

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in MFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by MFRS 15.

The application of MFRS 15 has no impact on the Group's and Company's financial statements. The Group and the Company have elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's and the Company's previous accounting policy as disclosed in Note 3.

2 BASIS OF PREPARATION (CONT'D)

2.2 Standards and Amendments in Issue but Not Yet Effective

At the date of authorisation for issue of these financial statements, the new and revised MFRSs and amendments to MFRSs and IC interpretation which were in issue but not yet effective and not early adopted by the Group and the Company are as listed below:

MFRS 16	Leases[1]
Amendments to MFRS 3	Definition of a Business[2]
Amendments to MFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture[4]
Amendments to MFRS 17	Insurance Contracts[3]
Amendments to MFRS 101 and MFRS 108	Definition of Material[2]
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement[1]
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures[1]
Amendments to MFRS 140	Transfers of Investment Property[1]
IC Interpretation 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements to MFRSs 2015 - 2017 Cycle[1]	
Amendments to References to the Conceptual Framework in MFRS Standards[2]	

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective date deferred to a date to be determine and announced, with earlier applications still permitted.

The Directors anticipate that the abovementioned MFRSs and amendments to MFRSs and IC interpretation will be adopted in the annual financial statements of the Group and of the Company when they become effective and that the adoption of these standards will have no material impact on the financial statements of the Group and of the Company in the period of initial application except as disclosed below:

MFRS 16 Leases

MFRS 16 specifies how an MFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with MFRS 16's approach to lessor accounting substantially unchanged from its predecessor, MFRS 117.

At lease commencement, a lessee will recognise a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessees shall use their incremental borrowing rate.

The Directors do not anticipate the application of MFRS 16 in the future to have a material impact on the amounts reported and disclosures made in these financial statements. The Group and the Company are currently assessing the financial impact of adopting MFRS 16.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as disclosed in the significant accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group and the Company take into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transaction that are within the scope of MFRS 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 Inventories or value in use in MFRS 136 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirely, which are described as follows:

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

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements.

3.1 Economic Entities in the Group

(a) Subsidiaries and Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries controlled by the Group. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Economic Entities in the Group (cont'd)

(a) Subsidiaries and Basis of Consolidation (cont'd)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted at the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Economic Entities in the Group (cont'd)

(a) Subsidiaries and Basis of Consolidation (cont'd)

When the Group loses control of a subsidiary, a gain or loss is recognised and is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and

- the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiaries and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Group had directly disposed of the relevant assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable MFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

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

(b) Business Combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 Income Taxes and MFRS 119 Employee Benefits respectively;

- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.1 Economic Entities in the Group (cont'd)

(b) Business Combination (cont'd)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with MFRS 139 Financial Instruments: Recognition and Measurement or MFRS 137 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items of which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

3.2 Foreign Currencies

(a) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group's entities operate (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional currency and the presentation currency of the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.2 Foreign Currencies (cont'd)

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Group Companies

Assets and liabilities of foreign subsidiaries are translated to Ringgit Malaysia at rates of exchange ruling at the reporting date and the results of foreign subsidiaries are translated at the average rate of exchange for the financial year. Exchange differences arising from the translation are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated in equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

3.3 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Leasehold land classified as finance lease is amortised in equal instalments over the period of the respective leases that range from 49 to 102 years. Capital work-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use. Depreciation of these assets, on the same basis of other property, plant and equipment, commences when the assets are ready for their intended used.

Property, plant and equipment are depreciated on the straight-line basis to write off the costs of the assets to their estimated residual values over their estimated useful lives. The annual depreciation rates are as follows:

	%
Buildings	2.0 - 5.0
Plant and machinery	3.0 - 33.3
Furniture, fittings, office renovation and equipment	10.0 - 33.3
Motor vehicles	20.0

At the end of each reporting period, the useful lives and depreciation method of an asset are reviewed and the effects of any changes are recognised prospectively.

A gain or loss arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.4 Assets under Hire-Purchase Arrangements

Assets acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations treated as liabilities. Finance charges are allocated to profit or loss to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

3.5 Inventories

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

The cost of raw materials, work-in-progress, finished goods and spares and consumables are determined using the weighted average method. The cost of raw materials and spares and consumables comprise the original purchase price plus the cost incurred in bringing the inventories to their present location and condition. The costs of finished goods and work-in-progress comprise raw materials, direct labour, other direct costs and an appropriate proportion of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and applicable variable selling expenses.

3.6 Financial Guarantee Contracts

Financial guarantee contracts are contract that require the Group or Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

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

3.7 Provisions

Provisions for liabilities are recognised when the Group and the Company have a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

3.8 Borrowing Costs

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 them ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.8 Borrowing Costs (cont'd)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The amount of borrowing costs eligible for capitalisation is determined based on actual interest incurred on borrowings made specifically for the purpose of obtaining a qualifying asset and less any investment income on the temporary investment of that borrowing.

All other borrowing costs are recognised as finance costs in profit or loss in the financial year in which they are incurred.

3.9 Leases

<u>Finance Lease - The Group as Lessee</u>

Assets acquired under leases which transfer substantially all of the risks and rewards incident to ownership of the assets are capitalised under property, plant and equipment. The assets and corresponding lease obligations are recorded at their fair values or, if lower, at the present value of the minimum lease payments of the leased assets at the inception of the respective leases.

Finance costs, which represent the differences between the total lease commitments and the fair values of the assets acquired, are charged to profit or loss over the term of the relevant lease periods so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

<u>Operating Lease - The Group as Lessee</u>

All other leases which do not meet such criteria are classified as operating lease. Lease payments under operating leases are recognised as an expense in profit or loss on the straight-line basis over the term of the relevant lease.

3.10 Contingencies

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

Contingent liabilities and assets are not recognised in the statements of financial position of the Group and of the Company except for contingent liabilities assumed in a business combination of which the fair value can be reliably measured.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.11 Revenue and Other Income Recognition

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation is a promise to transfer a distinct goods or services (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's and the Company's customary business practices.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or rendering of services in the ordinary course of business.

(a) Sales of Goods

Sales of goods are recognised upon delivery of products and when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

(b) Interest Income

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity.

(c) Rental Income

Revenue from rental of properties are recognised on an accrual basis unless collection is in doubt, in which case it is recognised on receipt basis.

(d) Management Fees from Subsidiaries

Management fees from subsidiaries are recognised on an accrual basis.

3.12 Income Tax

Income tax for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profits.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.12 Income Tax (cont'd)

Deferred tax is measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised outside profit or loss (either in other comprehensive income or directly in equity), in which case the deferred tax is also recognised outside profit or loss, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Company intend to settle the current tax assets and liabilities on a net basis.

3.13 Goods and Service Tax ("GST")

The output and input GST, payable to or recoverable from the authorities at each reporting date is included as part of receivables or payables in the statements of financial position.

3.14 Employee Benefits

(a) Short-term Employee Benefits

The Group and the Company recognise a liability and an expense for bonus provisions where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave, sick leave, bonuses, and non-monetary benefits are accrued in the financial year in which the associated services are rendered by employees of the Group and of the Company.

(b) Post-employment Benefits

The Group and the Company have two post-employment benefit schemes in accordance with local conditions and practices in the country in which they operate. These benefits plans are either defined contribution or defined benefit plans.

A defined contribution plan is a pension plan under which the Group and the Company pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Defined contribution plan

The Group and the Company contribute to the Employees Provident Fund ("EPF"), the national defined contribution plan. Contributions made to this defined contribution plan are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.14 Employee Benefits (cont'd)

(b) Post-employment Benefits (cont'd)

Defined benefit plan - unfunded

The liability recognised in the statements of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Ringgit Malaysia, and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan reflects the increase in the defined benefit obligation resulting from employee service in the current year. It is recognised in profit or loss in employee benefit expense, except when included in the cost of an asset. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in profit or loss.

3.15 Impairment of Non-Financial Assets

The carrying amounts of assets are reviewed at each reporting period to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3.16 Financial Instruments

MFRS 9 replaces the provisions of MFRS 139 that relate to the recognition, classification and measurement of the financial assets and financial liabilities, derecognition of the financial instruments and impairment of financial assets. The adoption of MFRS 9 from 1 January 2018 resulted in changes in accounting policies as described in Note 2.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

Financial assets and financial liabilities are recognised in the Group's and Company's statements of financial position when the Group and the Company become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(a) Financial Assets

Accounting policies applied from 1 January 2018

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(a) Financial Assets (cont'd)

(i) Classification of financial assets (cont'd)

Despite the foregoing, the Group and the Company may make the following irrevocable election/ designation at initial recognition of a financial asset:

- the Group and the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group and the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

<u>Amortisation cost and effective interest method</u>

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group and the Company recognise interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(a) Financial Assets (cont'd)

(i) Classification of financial assets (cont'd)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss.

Accounting policies applied until 31 December 2017

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of Financial Assets

Accounting policies applied from 1 January 2018

The Group and the Company recognise a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group and the Company always recognise lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's and the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group and the Company recognise lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group and the Company measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(a) Financial Assets (cont'd)

(ii) Impairment of Financial Assets (cont'd)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group and the Company compare the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group and the Company consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's and the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's and the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group and the Company presume that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group and the Company have reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group and the Company assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(a) Financial Assets (cont'd)

(ii) Impairment of Financial Assets (cont'd)

Significant increase in credit risk (cont'd)

The Group and the Company consider a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group and the Company become a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group and the Company consider the changes in the risk that the specified debtor will default on the contract.

The Group and the Company regularly monitor the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revise them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group and the Company consider the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group and the Company consider that default has occurred when a financial asset is more than 180 days past due unless the Group and the Company have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(a) Financial Assets (cont'd)

(ii) Impairment of Financial Assets (cont'd)

Write-off policy

The Group and the Company write off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's and the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's and the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group and the Company in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with MFRS 117 Leases.

If the Group and the Company measure the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determine at the current reporting date that the conditions for lifetime ECL are no longer met, the Group and the Company measure the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

Accounting policies applied until 31 December 2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Receivables assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's and Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in the national or global economic conditions that correlate with default on receivables.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(a) Financial Assets (cont'd)

(ii) Impairment of Financial Assets (cont'd)

Accounting policies applied until 31 December 2017 (cont'd)

In respect of receivables carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(iii) Derecognition of financial assets

Accounting policies applied from 1 January 2018

The Group and the Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Company recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Company retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group and the Company have elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Accounting policies applied until 31 December 2017

The Group and the Company derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when they transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group and the Company neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, the Group and the Company recognise their retained interest in the asset and an associated liability for amounts they may have to pay. If the Group and the Company retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Company continue to recognise the financial asset and also recognise a collateralised borrowing for the proceeds received.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(b) Financial Liabilities and Equity Instruments

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Company are recognised at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

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

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group and the Company, are measured in accordance with the specific accounting policies set out below.

(iv) Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(v) Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3.16 Financial Instruments (cont'd)

(b) Financial Liabilities and Equity Instruments

(vi) Derecognition of financial liabilities

The Group and the Company derecognise financial liabilities when, and only when, the Group's and the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group and the Company exchange with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group and the Company account for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

(c) Derivatives Instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

3.17 Cash and Cash Equivalents

The Group and the Company adopt the indirect method in the preparation of the statements of cash flows. Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risk of changes in value. In the statements of financial position, bank overdrafts are shown within borrowings in current liabilities. Bank overdrafts do not form an integral part of the Group's and the Company's cash management.

3.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors, who is responsible for allocating resources and assessing performance of the operating segments to make strategic decisions.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's results and financial positions are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Impairment of Property, Plant and Equipment

The Group assesses impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, i.e. the carrying amount of the asset is higher than the recoverable amount. Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flows derived from the asset discounted at an appropriate discount rate.

Projected future cash flows used in impairment testing of property, plant and equipment are based on Group's estimates calculated based on historical, sector and industry trends, general market and economic conditions and other available information.

(b) Impairment Assessment of Investments in Subsidiaries

The Company assesses impairment of investments in subsidiaries whenever the events or changes in circumstances indicate the carrying amounts of these investments may not be recovered, i.e. the carrying amounts of these investments are more than the recoverable amounts. The assessments are subject to changes such as market performance, economic and political situation of the country. Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value-in-use. The value-in-use is the net present value of the projected future cash flow derived from that asset discounted at an appropriate discount rate.

Significant judgement is required in the estimation of the present value of future cash flows generated by these investments, which involve uncertainties and are significantly affected by assumptions used and judgements made regarding estimates of future cash flows and discount rates.

(c) Recognition of Deferred Tax Assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax loses and unused tax credits can be utilised. This involves judgement regarding the future financial performance of the Group and the Company in which the deferred tax assets have been recognised.

(d) Income Taxes

Significant judgement is required in determining the capital allowances, deductibility of certain expenses and the chargeability of certain income during the estimation of the provision for income taxes. The Group and the Company recognise liabilities for tax based on estimates of assessment of the tax liability due. When the final tax outcome is different from the amount that were initially recorded, such differences will impact the income tax and deferred tax provisions, where applicable, in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(e) Defined Benefit Plan

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group and the Company determine the appropriate discount rate at the end of each financial year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group and the Company consider the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based on current market conditions.

(f) Impairment loss on Trade Receivables – Expected Credit Loss model

The policy for allowance for doubtful debts of the Group is based on expected credit loss model as required by MFRS 9. A considerable amount of judgement is required in assessing ECL on receivables using a provision matrix by reference to past default experience of the receivables and an analysis of the receivable's current financial position, adjusted for factors that are specific to the receivables, general economic conditions of the industry in which the receivables operate and an assessment of both current as well as the forecast direction of conditions at the reporting date.

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK

5.1 Capital Management

The primary objective of the Group's and of the Company's capital management is to ensure that a strong credit rating and healthy capital ratios are maintained in order to support the business and maximise shareholders' value.

The Group and the Company define capital as the share capital and certain borrowings of the Group and of the Company. The Group and the Company manage the capital structure and make adjustments to it, in light of changes in economic condition. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or share buy-backs. The Group's and the Company's approach in managing capital are based on defined guidelines that are approved by the Board of Directors.

There were no changes in the Group's and the Company's approach to capital management during the financial year.

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK (CONT'D)

5.1 Capital Management (cont'd)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debts, borrowings and trade and other payables less cash and bank balances. Capital includes equity attributable to the owners of the Company.

	Group	
	2018 RM'000	2017 RM'000
Borrowings (Note 16)	236,318	80,819
Trade and other payables (Note 18)	108,445	61,894
Cash and bank balances	(23,535)	(18,136)
Net debt	321,228	124,577
Equity	338,904	402,715
Gearing ratio	95%	31%

5.2 Financial Risk Management Objectives and Policies

The Group's and the Company's financial risk management objectives and policies seek to ensure that adequate financial resources are available for the development of the Group's the Company's businesses whilst managing its foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk. The Group and the Company operate within clearly defined authority limits that have been approved by the Board of Directors. Further financial risk management is carried out through risk reviews, internal control systems and insurance programmes.

<u>Foreign currency exchange risk management</u>

The Group's and the Company's exposure to foreign currency exchange risk is mainly as a result of foreign currency transactions. Foreign exchange exposures originated from foreign currency receivables, payables and cash flows generated from transactions denominated in foreign currencies.

The Group and the Company assess controls and monitor foreign exchange risk via regular review of foreign exchange movements and foreign exchange exposure for foreign transactions. Where necessary, foreign currency forward contracts are entered into to cover specific transactions to mitigate foreign currency exchange risk.

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK (CONT'D)

5.2 Financial Risk Management Objectives and Policies (cont'd)

Foreign currency exchange risk management (cont'd)

The Group's exposure to foreign currencies is as follows:

	US Dollar RM'000	Euro RM'000	Renminbi RM'000	Others* RM'000
As at 31 December 2018				
Group				
Trade and other receivables	17,486	490	589	(30)
Cash and cash equivalents	19	0	1,404	0
Trade and other payables	(5,972)	(2,090)	(58)	(131)
Gross currency exposure	11,533	(1,600)	1,935	(161)
Less: Trade receivables hedged using foreign exchange forward contracts	(6,678)	0	0	0
Net currency exposure	4,855	(1,600)	1,935	(161)

* Other currencies comprise Swiss Franc and Singapore Dollar.

As at 31 December 2018, the Company is not exposed to any foreign currency exchange risk.

	US Dollar RM'000	Euro RM'000	Others* RM'000
As at 31 December 2017			
Group			
Trade and other receivables	22,476	2,631	0
Cash and cash equivalents	8	0	0
Trade and other payables	(7,318)	(1,046)	(66)
Gross currency exposure	15,166	1,585	(66)
Less: Trade receivables hedged using foreign exchange forward contracts	(1,711)	0	0
Net currency exposure	13,455	1,585	(66)

* Other currencies comprise Swiss Franc, Australian Dollar, Chinese Renminbi and British Pound.

As at 31 December 2017, the Company is not exposed to any foreign currency exchange risk.

If functional currencies of the Group weakened/strengthened against the above currencies by 5% (2017: 5%), with all other variables held constant, the Group's profit for the financial year would increase/decrease by RM0.3 million (2017: decrease/increase RM0.7 million).

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK (CONT'D)

5.2 Financial Risk Management Objectives and Policies (cont'd)

Interest rate risk management

The Group's and the Company's exposure to interest rates risk are through the impact of rate changes on short-term and long-term borrowings. The Group and the Company do not make other placement in interest bearing deposits, non-guaranteed, fluctuating commercial papers and the like.

The carrying amounts, the range of applicable interest rate during the financial year and the remaining maturity of the Group's and of the Company's financial instruments that are exposed to the interest rate risk are disclosed in the respective notes.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for financial liabilities at the end of the reporting period. A 0.25% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the end of reporting period, if interests rates had been 0.25% higher/lower and all other variables were held constant, the Group's profit or loss for the year would decrease/increase by RM0.6 million (2017: RM0.2 million) respectively. This is mainly attributable to the Group's exposure to interest rates on borrowings.

Credit risk management

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from cash and bank balances and receivables. The Group and the Company seek to control credit risk by having in place policies for credit control which cover, inter-alia, credit evaluation on all customer credit over a certain amount, imposition of collateral or security and strict adherence to credit approval limits. Regular reviews and monitoring of credit risk exposure and management of delinquent debtors form part of the operational controls implemented by the Group and the Company to reduce such risk.

Apart from the concentration risk of the major customers as disclosed in Note 11, the Group and the Company do not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group's and the Company's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's and the Company's receivables.

At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is the carrying amount of financial assets which are mainly cash and bank balances and trade and other receivables. The Group's and the Company's credit risks on cash and bank balances are limited as the Group and the Company place their funds with reputable financial institutions with high credit ratings.

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK (CONT'D)

5.2 Financial Risk Management Objectives and Policies (cont'd)

Liquidity and cash flow risks managements

The Group's and the Company's policy on liquidity risk management is to maintain sufficient cash to meet operational needs and the availability of funding through adequate amounts of committed credit facilities and credit lines for working capital requirements. Daily monitoring of funds also minimises unexpected shortfall in funds.

As of 31 December 2018, the current liabilities of the Group have exceeded the current assets by RM75.5 million. Various actions have been/will be taken as disclosed in Note 32 which the Board of Directors of the Company believes will improve the working capital of the Group.

The following are the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows:

		Contractual/Forecasted cash flows			
	Carrying amount RM'000	Total RM'000	Within 1 year RM'000	Between 2-5 years RM'000	After 5 years RM'000
As at 31 December 2018					
Group					
Trade and other payables	108,445	108,445	108,045	400	0
Amount due to former immediate holding company	32,038	33,761	15,680	18,081	0
Borrowings	236,318	271,626	125,517	108,850	37,259
	376,801	413,832	249,242	127,331	37,259
Company					
Trade and other payables	911	911	911	0	0
Amount due to subsidiaries	3,426	3,426	3,426	0	0
Amount due to former immediate holding company	32,038	33,761	15,680	18,081	0
	36,375	38,098	20,017	18,081	0
Financial guarantee contracts (Note 31) [1]	0	0	0	0	0

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK (CONT'D)

5.2 Financial Risk Management Objectives and Policies (cont'd)

Liquidity and cash flow risks managements (cont'd)

	Carrying amount RM'000	Contractual/Forecasted cash flows Total RM'000	Within 1 year RM'000	Between 2-5 years RM'000	After 5 years RM'000
As at 31 December 2017					
Group					
Trade and other payables	61,894	61,894	61,173	721	0
Amount due to former immediate holding company	40,418	43,395	10,849	32,546	0
Borrowings	80,819	88,106	70,618	13,932	3,556
	183,131	193,395	142,640	47,199	3,556
Company					
Trade and other payables	1,140	1,140	1,140	0	0
Amount due to subsidiaries	3,426	3,426	3,426	0	0
Amount due to former immediate holding company	40,418	43,395	10,849	32,546	0
	44,984	47,961	15,415	32,546	0
Financial guarantee contracts (Note 31) [1]	0	0	0	0	0

[1] At the end of the reporting period, it was not probable that the counterparties to financial guarantee commitments will claim under the contract. Consequently, the amount included is RMNil.

5 CAPITAL RISK MANAGEMENT AND FINANCIAL RISK (CONT'D)

5.3 Fair value of financial instruments

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group				
As at 31 December 2018				
Derivative financial assets	0	34	0	34
As at 31 December 2017				
Derivative financial assets	0	50	0	50

The fair value of the Group's foreign exchange forward contracts at the end of the reporting period as disclosed in Note 19 is determined by reference to the differences between the contract rates and quoted forward exchange rates of contract with similar quantum and maturity profile at the end of the reporting period.

The Group's and the Company's non-current receivables and other financial liabilities are measured using expected future cash flows of forecasted payments discounted at current prevailing rates offered for similar types of credit or lending arrangements.

	Carrying amount RM'000	Fair value RM'000
Group		
As at 31 December 2018		
Borrowings	119,802	111,079
As at 31 December 2017		
Borrowings	14,745	13,077

The estimated fair value for the non-current receivables and other financial liabilities, excluding non-current borrowings approximate their carrying value as at the reporting date.

Other than disclosed above, the carrying amounts of the financial assets and liabilities approximate their fair values due to the relatively short term maturity of these financial instruments which mainly consists of deposits, cash and bank balances, receivables, borrowings and payables.

6 PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM'000	Freehold buildings RM'000	Leasehold land RM'000	Leasehold buildings RM'000	Plant machinery RM'000	Furniture, fittings, office renovation and equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Group									
Net book value									
At 1 January 2018	0	0	15,084	113,279	292,132	1,001	3,655	10,009	435,160
Acquisition of subsidiary (Note 7)	14,672	31,828	2,450	9,500	29,200	5,903	20	61,528	155,101
Additions	0	194	105	785	2,727	364	1,819	18,296	24,290
Disposals	0	0	0	0	0	(1)	0	0	(1)
Written off	0	0	0	0	0	(1)	0	(15)	(16)
Reclassification	999	7,159	982	0	48,481	5,993	32	(63,646)	0
Depreciation charge for the financial year	0	(642)	(265)	(1,717)	(21,875)	(1,324)	(1,001)	0	(26,824)
Impairment loss	0	(4,578)	0	(4,534)	(13,314)	0	0	(3,650)	(26,076)
At 31 December 2018	15,671	33,961	18,356	117,313	337,351	11,935	4,525	22,522	561,634
At 31 December 2018									
Cost	15,671	39,643	22,765	143,997	676,682	28,426	11,940	26,172	965,296
Accumulated depreciation	0	(1,104)	(4,409)	(22,150)	(324,220)	(16,491)	(7,415)	0	(375,789)
Accumulated impairment losses	0	(4,578)	0	(4,534)	(15,111)	0	0	(3,650)	(27,873)
Net book value	15,671	33,961	18,356	117,313	337,351	11,935	4,525	22,522	561,634

6 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Leasehold land RM'000	Buildings RM'000	Plant and machinery RM'000	Furniture, fittings, office renovation and equipment RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Group							
Net book value							
At 1 January 2017	15,313	109,059	285,237	1,374	2,276	34	413,293
Additions	0	1,278	11,949	464	1,933	12,084	27,708
Disposals	0	0	0	0	(56)	0	(56)
Written off	0	0	(158)	(2)	0	0	(160)
Reclassification	0	650	1,459	0	0	(2,109)	0
Depreciation charge for the financial year	(229)	(1,479)	(14,638)	(835)	(498)	0	(17,679)
Write back of impairment loss	0	3,771	8,283	0	0	0	12,054
At 31 December 2017	15,084	113,279	292,132	1,001	3,655	10,009	435,160
At 31 December 2017							
Cost	19,212	133,592	583,982	14,514	10,060	10,009	771,369
Accumulated depreciation	(4,128)	(20,313)	(290,053)	(13,513)	(6,405)	0	(334,412)
Accumulated impairment losses	0	0	(1,797)	0	0	0	(1,797)
Net book value	15,084	113,279	292,132	1,001	3,655	10,009	435,160

6 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Furniture, fittings, office renovation and equipment RM'000
Company	
Net book value	
At 1 January 2018	1
Depreciation charge for the financial year	0
At 31 December 2018	1
At 31 December 2018	
Cost	4,920
Accumulated depreciation	(4,919)
Net book value	1
At 1 January 2017	9
Depreciation charge for the financial year	(8)
At 31 December 2017	1
At 31 December 2017	
Cost	4,920
Accumulated depreciation	(4,919)
Net book value	1

(a) The freehold land and building and the leasehold land and building of the Group and all of its plant and machinery, both present and future, affixed to or on the said lands are charged as security for the borrowings of the Group as disclosed in Note 16.

(b) At the end of the reporting period, property, plant and equipment of the Group with net carrying amount of RM15.7 million (2017: RM0.5 million) were acquired under hire-purchase agreements.

6 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(c) Impairment assessment for property, plant and equipment

As at 31 December 2018, the Group's property, plant and equipment of its subsidiaries were tested for impairment due to their net current liabilities position and continuing losses incurred. Based on management's assessment, the results are as follows:

Plant 3

- The recoverable amount, based on value-in-use ("VIU") calculation is RM284.6 million, which is lower than its carrying value of RM302.1 million by RM17.5 million.

Simpang Pertang Plant

- The recoverable amount, based on VIU calculation is RM31.6 million, which is lower than its carrying value of RM31.9 million by RM0.3 million.

Gerik Plant

- The recoverable amount, based on fair value less cost to sell, is RM28.5 million which is lower than its carrying value of RM36.7 by RM8.2 million.

Accordingly, an impairment loss of RM26.1 million was recognised in the profit or loss for the year.

The key assumptions used in determining the VIU for Plant 3 and Simpang Pertang Plant are as follows:

- Pre-tax discount rate ranging from 12.1% to 12.6%.

The fair value of the Gerik Plant have been arrived at on the basis of a valuation carried out by KGV International Property Consultants (M) Sdn. Bhd., an independent professional qualified valuer, using market comparable approach and cost approach based on analysis of recent transactions and the asking prices of similar properties in the same vicinity with adjustments made for differences in location, size and shape of the freehold land and building, tenure, title restrictions, if any and other relevant characteristics. The fair value hierarchy for the property, plant and equipment of Gerik Plant is categorised as level 2.

7 INVESTMENT IN SUBSIDIARIES

	Company	
	2018 RM'000	2017 RM'000
Unquoted shares, at cost	59,559	52,495
Less: Impairment loss	(2,420)	(2,420)
Unquoted shares, at carrying value	57,139	50,075

7 INVESTMENT IN SUBSIDIARIES (CONT'D)

The shares in subsidiaries are held directly by the Company unless otherwise stated. Details of the subsidiaries are as follows:

Name of company	Proportion of ownership interests 2018 %	2017 %	Principal activities
Mieco Manufacturing Sdn. Bhd.	100	100	Manufacturing and marketing of chipboards and related products
Great Platform Sdn. Bhd.	100	0	Manufacturing and trading of particle board and medium density fibreboard
Mieco Marketing Sdn. Bhd.	100	100	Dormant
Mieco Chemicals Sdn. Bhd.	100	100	Dormant
Mieco Wood Resources Sdn. Bhd.	100	100	Dormant
Mieco International (HK) Limited [1]	100	100	Dormant
Tudor Capital Sdn. Bhd.	100	100	Dormant
Aspire Benchmark Sdn. Bhd.	100	100	Dormant
Subsidiary of Mieco Wood Resources Sdn. Bhd.			
Mieco Reforestation Sdn. Bhd.	100	100	Dormant
Subsidiary of Great Platform Sdn. Bhd.			
Particleboard Malaysia Sdn. Bhd.	100	0	Dormant

All the subsidiaries are incorporated in Malaysia, except for Mieco International (HK) Limited, which is incorporated in Hong Kong.

1 This subsidiary is not audited by Deloitte PLT. As the company is dormant, no statutory audit is required under Hong Kong Companies Ordinance.

As of 31 December 2018, the shares in Great Platform Sdn Bhd with a carrying value of RM7.064 million has been pledge as security for the outstanding amount of certain term loan as disclosed in Note 16.

7 INVESTMENT IN SUBSIDIARIES (CONT'D)

Acquisition of subsidiaries

On 27 February 2018, the Company acquired 100% of the shares in Great Platform Sdn. Bhd. ("GPSB") from SYF Resources Berhad, a company in which certain directors of the Company are also directors and have substantial interest, for a total purchase consideration of RM7.06 million.

The fair values of assets and liabilities recognised on acquisition were as follows:

	Group 2018 RM'000
ASSETS	
Non-current assets	
Property, plant and equipment	155,101
Current Assets	
Inventories	19,141
Trade and other receivables	7,215
Tax receivables	15
Cash and bank balances	3,300
Total Assets	184,772
LIABILITIES	
Current Liabilities	
Trade and other payables	(21,575)
Bank borrowings	(18,573)
Bank overdraft	(1,685)
Non-current Liabilities	
Bank borrowings	(82,228)
Deferred tax liabilities	(2,424)
Total Liabilities	(126,485)
Fair value of identifiable net assets acquired	58,287
Less: Settlement of liabilities to former holding company	(51,529)
	6,758

The effect of the acquisition on cash flows is as follows:

Cash and cash equivalents acquired	1,615
Less: Consideration paid	(7,064)
Net cash outflows on acquisition, net of cash and cash equivalents acquired	(5,449)

7 INVESTMENT IN SUBSIDIARIES (CONT'D)

Acquisition of subsidiaries (cont'd)

Goodwill was recognised as a result of the acquisition as follows:

	Group 2018 RM'000
Total consideration transferred:	7,064
Less: Fair value of identifiable net assets acquired	(6,758)
	306

The acquisition of GPSB is for the purpose of synergy where value and performance of two companies' combined will be greater than the sum of the separate individual parts. Through the acquisition, the Mieco Manufacturing Sdn Bhd ("MMSB") will transfer all the lower grade chipboard production to GPSB and the MMSB could focus on the high quality chipboard. Thus, the acquisition did not make a substantial change to manufacturing process which could give additional advantage to the Group and hence the goodwill of RM0.3 million had been written off.

If the acquisition had occurred on 1 January 2018, it will contribute to the Group's results for the current financial year by the following amount:

	Group 2018 RM'000
Revenue	91,851
Loss for the year	(29,159)

The acquired subsidiary has contributed the following results to the Group from the effective date of acquisition to the end of the financial year:

	Group 2018 RM'000
Revenue	81,029
Loss for the year	(21,611)

8 AMOUNT DUE FROM/(TO) SUBSIDIARIES

Amount due to subsidiaries is unsecured, interest free and repayable on demand.

Amount due from subsidiaries is classified as follows:

	Company 2018 RM'000	2017 RM'000
Current - unsecured		
Interest bearing at effective interest rate of 5.35% (2017: 5.35%)	9,401	6,154
Interest free	11,226	9,907
	20,627	16,061
Less: allowance for doubtful debts	(1,685)	(1,685)
	18,942	14,376
Non-current - unsecured		
Interest bearing at effective interest rate of 5.35% (2017: 5.35%)	11,415	20,014
Interest free	295,453	312,323
	306,868	332,337
	325,810	346,713

The interest expense incurred by the Company on the external borrowings during the financial year amounting to RM1.2 million (2017: RM1.7 million) is fully re-charged to a subsidiary.

As at 31 December 2018, amounts due from several subsidiaries amounting to RM1.69 million (2017: RM1.69 million) were impaired by the Company as the amounts were deemed to be irrecoverable as the entities remained dormant as at the financial year end.

The change in the allowance for doubtful debts in respect of amounts due from subsidiaries during the financial year is as follows:

	Company 2018 RM'000	2017 RM'000
At beginning of financial year	1,685	2,112
Reversal during the financial year	0	(427)
At end of financial year	1,685	1,685

9 DEFERRED TAXATION

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At beginning of financial year	10,189	10,189	0	0
Acquisition of subsidiary (Note 7)	(2,424)	0	0	0
(Charged)/Credited to profit or loss (Note 24):				
- Property, plant and equipment	481	7,636	(1)	3
- Provisions and employee defined benefit plan	(74)	(362)	(5)	31
- Inventories	178	(85)	0	0
- Receivables	0	(103)	0	(103)
- Others	(5,463)	(7,086)	6	69
	(4,878)	0	0	0
At end of financial year	2,887	10,189	0	0

The movements in deferred tax assets and liabilities during the financial year (prior to offsetting of balances) comprise the following:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets (before offsetting)				
Provisions and employee defined benefit plan	3,092	3,166	157	162
Inventories	2,481	2,303	0	0
Receivables	513	513	404	404
Unused tax losses	6,222	3,811	1,190	1,150
Unused investment tax allowances	103,847	103,847	0	0
Unabsorbed capital allowances	57,675	50,040	0	0
Others	220	566	35	35
	174,050	164,246	1,786	1,751
Deferred tax assets not recognised	(94,900)	(86,193)	(1,786)	(1,751)
	79,150	78,053	0	0
Offsetting	(73,717)	(67,864)	0	0
Deferred tax assets (after offsetting)	5,433	10,189	0	0

9 DEFERRED TAXATION (CONT'D)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	(76,263)	(67,864)	0	0
Offsetting	73,717	67,864	0	0
Deferred tax liabilities (after offsetting)	2,546	0	0	0

As mentioned in Note 3, the tax effects of deductible temporary differences, unused tax losses and unused tax credits which would give rise to deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. At the end of the reporting period, the estimated amount of deductible temporary differences, unused tax losses, investment tax allowances and unused tax credits, for which no deferred tax assets have been recognised in the financial statements due to uncertainty of their realisation, are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
(Taxable)/Deductible temporary differences	(291,480)	(255,482)	2,486	2,508
Unused tax losses	15,114	5,074	4,958	4,790
Unused investment tax allowances	432,696	432,696	0	0
Unabsorbed capital allowances	228,480	176,848	0	0
	384,810	359,136	7,444	7,298

The Company's income tax rate is at 24% for the year of assessment 2018 (2017: 24%).

10 INVENTORIES

	Group	
	2018 RM'000	2017 RM'000
At cost:		
Raw materials	9,123	7,748
Work-in-progress	1,452	989
Finished goods	30,189	41,245
Spares and consumables	22,800	18,963
	63,564	68,945

11 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade receivables	66,977	46,631	0	0
Less: allowance for doubtful debts	(453)	(453)	0	0
	66,524	46,178	0	0
Other receivables	14,360	26,783	158	885
Less: allowance for doubtful debts	(7,815)	(7,815)	(54)	(54)
	6,545	18,968	104	831
Deposits	1,818	93	5	7
Prepayments	1,390	844	5	5
	9,753	19,905	114	843
Total	76,277	66,083	114	843

Trade receivables

The credit terms of the trade receivables ranging from 1 to 90 days (2017: 1 to 90 days).

The maximum exposure to credit risk for trade receivables as at the reporting date is the carrying amount of each class of receivable mentioned above.

Of the total trade receivables balance of the Group at the end of the reporting period, 50% (2017: 45%) are due from ten (2017: five) customers. There are no other customers which individually represents more than 5% of the total trade receivable balance.

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group.

11 RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONT'D)

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

	Gross amount RM'000	Allowance for doubtful debts RM'000	Net of allowances RM'000
As at 31 December 2018			
Not past due	42,057	0	42,057
Past due 1 - 30 days	14,441	0	14,441
Past due 31 - 90 days	7,543	0	7,543
Past due more than 90 days	2,936	(453)	2,483
	66,977	(453)	66,524
As at 31 December 2017			
Not past due	41,616	0	41,616
Past due 1 - 30 days	2,433	0	2,433
Past due 31 - 90 days	772	0	772
Past due more than 90 days	1,810	(453)	1,357
	46,631	(453)	46,178

As at 31 December 2018, the Group's trade receivables amounting to RM24.5 million (2017: RM4.6 million) were past due but not impaired. The Group believes that, no additional impairment of trade receivables is necessary as these trade receivables mainly arose from sales to customers that have good records of payment in the past.

The Group applied the simplified approach whereby allowance for doubtful debts is measured at lifetime expected credit loss as disclosed in Note 2. Comparative amount for 2017 represent allowance account for credit losses and reflect measurement basis under MFRS 139. Receivables that are individually determined to be credit impaired at the financial year end for 2017 and 2018 is RM453,000.

11 RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONT'D)

Other receivables

The change in the allowance for doubtful debts in respect of other receivables during the financial year is as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At beginning/At end of the financial year	7,815	7,815	54	54

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances	12,080	12,164	18	57
Deposits and placement with licensed banks	11,455	5,972	196	190
	23,535	18,136	214	247
Less: Restricted deposits	(11,455)	(5,972)	(196)	(190)
	12,080	12,164	18	57
Less: Bank overdraft (Note 16)	(1,710)	0	0	0
	10,370	12,164	18	57

Bank balances with licensed banks held on call are non-interest bearing. Deposits with licensed financial institutions are bank deposit placements with tenure of 365 days (2017: 365 days). The deposits of the Group and of the Company held with licensed financial institutions are restricted in usage and do not form part of cash and cash equivalents.

Deposits with licensed financial institutions of the Group and the Company totalling RM11.5million and RM0.2million respectively (2017: RM6 million and RM0.2 million) have been pledged to secure bank credit and term loan facilities of the Group.

The weighted average interest rates that were effective at the reporting date are as follows:

	Group		Company	
	2018 % per annum	2017 % per annum	2018 % per annum	2017 % per annum
Deposits with licensed financial institutions	3.21	3.03	3.35	3.20

13 SHARE CAPITAL

	Number of ordinary shares		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
Issued and fully paid:				
Balance at beginning of the year	210,000	210,000	215,866	210,000
Effects of share split	315,000	315,000	0	0
Transfer from share premium	0	0	0	5,866
Balance at end of the year	525,000	525,000	215,866	215,866

In 2017, the Company carried out a share split exercise involving the sub-division of ordinary shares from every two (2) existing ordinary shares into five (5) new ordinary shares.

The Company's issued and fully paid-up share capital comprises ordinary shares with a par value of RM1 each. The Companies Act, 2016 (Act), which came into operation on 31 January 2017, introduces the "no par value" regime. Accordingly, the concepts of "authorised share capital" and "par value" have been abolished.

In accordance with the transitional provisions of the Act, the amount standing to the credit of the Company's share premium has become part of the Company's share capital. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the shareholders. The Company has a period of 24 months from the effective date of the Act to use the existing balance credited in the share premium account in a manner as specified by the Act. Included in issued capital as of 31 December 2017 is an amount of RM5,866,000 transferred from share premium on 31 January 2017, which can be utilised in a manner as specified by the Act during the 24 month-transitional period.

14 RESERVES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-distributable:				
Foreign currency reserve	(43)	(43)	0	0
Distributable:				
Retained earnings	123,081	186,892	130,952	136,787
	123,038	186,849	130,952	136,787

On 26 February 2018, the Directors declared an interim single-tier dividend of 1 sen per share on 525,000,000 ordinary shares, amounting to RM5,250,000 in respect of the financial year ended 31 December 2017. The dividend was paid on 27 April 2018.

The Directors do not recommend any dividends payment in respect of the current financial year.

15 EMPLOYEE DEFINED BENEFIT PLAN

The Group and the Company operate an unfunded retirement benefit for those employees who are eligible under the Group and the Company employment policy. The latest actuarial valuation of the plan was carried out on 8 February 2019.

The amount recognised in the Group's and the Company's statements of financial position are analysed as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Present value of defined benefit obligations	12,631	13,072	401	557

The movements during the financial year in the amounts recognised in the Group's and the Company's statements of financial position are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At beginning of financial year	13,072	12,542	557	574
Charged to profit or loss (Note 21)	1,919	1,533	128	102
Remeasurements (recognised in other comprehensive income):				
- Gain due to change in actuarial assumptions	(2,022)	0	(253)	0
Benefit paid	(338)	(1,003)	(31)	(119)
At end of financial year	12,631	13,072	401	557

The principal actuarial assumptions used in respect of the Group's and the Company's defined benefit plan are as follows:

	2018 %	2017 %
Discount rate	5.30	5.40
Expected rate of salary increases	5.00	6.20

15 EMPLOYEE DEFINED BENEFIT PLAN (CONT'D)

The expenses recognised in the profit or loss are analysed as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current service cost	917	895	80	78
Interest cost	689	638	30	24
Past service cost	313	0	18	0
	1,919	1,533	128	102

The sensitivity of the defined benefit plan as at 31 December 2018 to changes in the principal assumptions is as follows:

	Change in assumption	Impact on defined benefit obligation
Group		
Discount rate	Increase by 1%	Decrease by RM1,242,146
	Decrease by 1%	Increase by RM1,290,128
Expected rate of salary increases	Increase by 1%	Increase by RM1,214,658
	Decrease by 1%	Decrease by RM1,201,170
Company		
Discount rate	Increase by 1%	Decrease by RM50,320
	Decrease by 1%	Increase by RM60,828
Expected rate of salary increases	Increase by 1%	Increase by RM58,205
	Decrease by 1%	Decrease by RM49,214

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised in the statement of financial position.

As at 31 December 2018, the Group's and the Company's weighted average duration of the defined benefit obligation are 12 years (2017: 9 years) and 14 years (2017: 10 years) respectively.

15 EMPLOYEE DEFINED BENEFIT PLAN (CONT'D)

Expected maturity analysis of undiscounted pension obligation as at the reporting dates:

	Less than a year RM'000	Between 1 - 2 years RM'000	Between 2 - 5 years RM'000	Over 5 years RM'000	Total RM'000
Group					
At 31 December 2018	565	506	2,739	47,577	51,387
At 31 December 2017	786	1,745	4,224	41,229	47,984
Company					
At 31 December 2018	14	17	53	3,452	3,536
At 31 December 2017	10	231	44	2,842	3,127

16 BORROWINGS

	Group	
	2018 RM'000	2017 RM'000
Current		
Secured:		
Term loan	17,152	1,900
Bankers' acceptances	62,894	46,440
Revolving credit	15,500	14,000
Bank overdraft	1,710	0
Unsecured:		
Term loan	897	277
Bankers' acceptances	15,730	3,349
Hire-purchase obligations	2,633	108
	116,516	66,074
Non-Current		
Secured:		
Term loan	112,294	12,905
Unsecured:		
Term loan	3,347	1,523
Hire-purchase obligations	4,161	317
	119,802	14,745
Total Borrowings	236,318	80,819

16 BORROWINGS (CONT'D)

The carrying amounts of the borrowings approximate their fair values at 31 December 2018.

Bank overdraft, bankers' acceptances and revolving credit are utilised to finance the purchase of raw materials and working capital.

As at the reporting date, the Group's bankers' acceptances, revolving credit, term loan and bank overdraft facilities amounting to RM209.6 million (2017: RM75.2 million) are secured against the property, plant and equipment of the Group as disclosed in Note 6, investment in subsidiary as disclosed in Note 7 and deposits with licensed financial institutions as disclosed in Note 12.

Contractual term of borrowings are as follows:

	Weighted average interest rates	Total carrying amount			Maturity profile	
			<1 year	1 - 2 years	3 - 5 years	> 5 years
	%	RM'000	RM'000	RM'000	RM'000	RM'000
At 31 December 2018						
Bankers' acceptances	3.90-5.82	78,624	78,624	0	0	0
Revolving credit	6.2	15,500	15,500	0	0	0
Hire-purchase obligations	3.3	6,794	2,633	2,633	1,528	0
Term loan	7.01-8.54	133,690	18,049	22,407	59,320	33,914
Bank overdraft		1,710	1,710	0	0	0
		236,318	116,516	25,040	60,848	33,914
At 31 December 2017						
Bankers' acceptances	5.10-5.35	49,789	49,789	0	0	0
Revolving credit	5.93	14,000	14,000	0	0	0
Hire-purchase obligations	2.54	425	108	317	0	0
Term loan	4.30-7.91	16,605	2,177	2,462	10,489	1,477
		80,819	66,074	2,779	10,489	1,477

As at 31 December 2018, the Group has complied with all the financial covenants for the borrowings and did not default in any repayment of principals and interests as at the reporting date.

16 BORROWINGS (CONT'D)

Reconciliation of liabilities arising from financing activities

The table below details the reconciliation of the opening and closing amounts in the statements of financial position for each liability for which cash flows have been, or would be, classified as financing activities in the statements of cash flows:

Group	2017 RM'000	Proceeds RM'000 (a)	Repayments RM'000 (a)	Acquisition of subsidiary RM'000	2018 RM'000
Term loan	16,605	46,800	(11,943)	82,228	133,690
Bankers' acceptances	49,789	18,542	0	10,293	78,624
Revolving credit	14,000	0	0	1,500	15,500
Hire-purchase obligations	425	1,445	(1,856)	6,780	6,794
	80,819	66,787	(13,799)	100,801	234,608

	2016 RM'000	Proceeds RM'000 (a)	Repayments RM'000 (a)	2017 RM'000
Term loan	0	17,000	(395)	16,605
Bankers' acceptances	25,889	111,404	(87,504)	49,789
Revolving credit	4,000	10,000	0	14,000
Hire-purchase obligations	0	433	(8)	425
	29,889	138,837	(87,907)	80,819

(a) The net financing cash flows from bank borrowings make up the net amount of proceeds and repayments of borrowings.

17 AMOUNT DUE TO FORMER IMMEDIATE HOLDING COMPANY

The former immediate holding company was BRDB Developments Sdn. Bhd. ("BRDB") and the former ultimate holding company was Ambang Sehati Sdn. Bhd. ("ASSB"), both of which are incorporated in Malaysia.

Amount due to former immediate holding company is as follows:

	Group and Company	
	2018 RM'000	2017 RM'000
Current - unsecured		
Interest free	5,375	3,721
Interest bearing at effective interest rate of 5.35% (2017: 5.35%)	9,411	6,155
	14,786	9,876
Non-current - unsecured		
Interest free	5,837	10,529
Interest bearing at effective interest rate of 5.35% (2017: 5.35%)	11,415	20,014
	17,252	30,543
	32,038	40,419

Reconciliation of liabilities arising from financing activities

The table below details the reconciliation of the opening and closing amounts in the statements of financial position for each liability for which cash flows have been, or would be, classified as financing activities in the statements of cash flows:

Group and Company

	2017 RM'000	Repayments RM'000	2018 RM'000
Amount due to former holding company	40,419	(8,381)	32,038

	2016 RM'000	Repayments RM'000	2017 RM'000
Amount due to former holding company	53,212	(12,793)	40,419

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current				
Trade payables	80,278	47,471	0	0
Accrued expenses	12,266	4,630	911	996
Other payables	15,154	8,832	0	144
Amount due to a former related company (Note 28)	347	240	0	0
	108,045	61,173	911	1,140
Non-current				
Amount due to a former related company (Note 28)	400	721	0	0
	108,445	61,894	911	1,140

The credit terms of trade and other payables ranging from 1 to 90 days (2017: 1 to 90 days).

Amount due to a former related company, a subsidiary of the former immediate holding company, is unsecured, interest free and repayable on demand.

Amount due to a related party, a company in which a Director of the Company has financial interest, is unsecured, interest free and repayable on demand.

Included in trade payables is an amount due to related parties, Seng Yip Furniture Sdn. Bhd. as disclosed in Note 28.

In 2017, included in trade payables is an amount due to a related party, GPSB. Subsequently in 2018, GPSB was acquired by the Company and became a wholly-owned subsidiary. The balances are as disclosed in Note 28.

19 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivatives comprise solely foreign exchange forward contracts incepted to hedge its currency exposures arising from future sales of goods and trade receivables after netting of the purchases of raw materials in United States Dollar ("USD"). Foreign exchange forward contracts are entered into with licensed banks. The foreign exchange forward contracts generally have a maturity period between 1 to 6 months.

Details of the Group's derivative financial instruments are outlined below:

	Group	
	2018 RM'000	2017 RM'000
Fair value of remeasured foreign forward exchange contracts	34	50

19 DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

At 31 December 2018, the Group's foreign exchange forward contracts entered into are as follows:

Hedged items	Currency to be received	2018 RM'000 equivalent	Average contractual rate
Trade receivables	US Dollar 1.6 million	6,678	4.1651

Hedged items	Currency to be received	2017 RM'000 equivalent	Average contractual rate
Trade receivables	US Dollar 0.4 million	1,711	4.2223

These contracts are executed with credit worthy/reputable financial institutions in Malaysia. As such, credit risk and liquidity risk in respect of non-performance by counterparties to these contracts are minimal.

20 REVENUE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Sale of goods	419,847	349,306	0	0
Management fee receivable from a subsidiary	0	0	5,324	3,633
	419,847	349,306	5,324	3,633

21 STAFF COSTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages, salaries and bonuses	25,863	20,853	4,374	2,700
Defined contribution plan	2,984	2,576	534	310
Employee defined benefit plan (Note 15)	1,919	1,533	128	102
Other employee benefits	10,817	9,751	136	170
	41,583	34,713	5,172	3,282

Details of the defined benefit plan for the Group and the Company are set out in Note 15.

Included in the staff costs of the Group and the Company are Executive Director's remuneration, as disclosed in Note 26.

22 PROFIT/(LOSS) FROM OPERATIONS

The following items have been charged/(credited) in arriving at profit/(loss) from operations:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Write off of:				
- property, plant and equipment	16	160	0	0
- inventories	315	0	0	0
Fair value loss/(gain) on derivative financial instruments	16	(317)	0	0
Auditors' remuneration:				
- current financial year	189	170	75	75
Debts waiver	0	0	0	(65)
Rental of building	121	135	0	0
Unrealised (gain)/loss on foreign exchange				
- trade receivables and payables	(411)	1,325	0	0
Gain on disposal of property, plant and equipment	(1)	(248)	0	0
Allowance/(Write back of allowance) for inventories obsolescence	740	(354)	0	0
Provision for employee defined benefit plan	1,919	1,533	128	102
Rental income	(510)	(60)	0	0
Goodwill written off	306	0	0	0

23 FINANCE COSTS AND FINANCE INCOME

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Finance costs				
Interest expense on:				
- Bank overdraft	277	43	0	0
- Bankers' acceptances	3,585	2,338	0	0
- Hire purchase liabilities	444	0	0	0
- Term loans	6,871	213	0	0
- Amount due to former immediate holding company	1,242	1,671	1,242	1,671
- Revolving credit	917	127	0	0
- Foreign currency trade financing	333	0	0	0
Loan facility fees	75	76	0	0
	13,744	4,468	1,242	1,671
Less: offsetting	0	0	(1,242)	(1,671)
	13,744	4,468	0	0

23 FINANCE COSTS AND FINANCE INCOME (CONT'D)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Finance income				
Recovery of interest from a subsidiary in respect of borrowings from former immediate holding company	0	0	(1,242)	(1,671)
Interest income	(298)	(319)	0	0
	(298)	(319)	(1,242)	(1,671)
Less: offsetting	0	0	1,242	1,671
	(298)	(319)	0	0

24 TAX EXPENSE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Tax expense for the financial year:				
In respect of the current year:				
- Malaysian income tax	(50)	(68)	0	0
- Deferred tax (Note 9)	(4,878)	0	0	0
	(4,928)	(68)	0	0
Under provision prior year				
- Malaysian income tax	0	(9)	0	(4)
	(4,928)	(77)	0	(4)

24 TAX EXPENSE (CONT'D)

The effective tax rates of the Group's and the Company's profit/(loss) before taxation differ from the statutory income tax rate of 24% (2017: 24%) and is reconciled as below:

	Group		Company	
	2018 %	2017 %	2018 %	2017 %
Statutory income tax rate of Malaysia	24	24	24	24
Tax effects of:				
- Expenses not deductible	(16)	(1)	0	0
- Deferred tax assets not recognised	(12)	(8)	(24)	(24)
- Utilisation of deferred tax assets previously not recognised	4	0	0	0
- Others	8	33	0	0
Effective tax rate	8	0	0	0

25 (LOSS)/EARNINGS PER SHARE

The (loss)/earnings per share of the Group is calculated based on the loss attributable to owners of the Company of RM60.6 million (2017: profit attributable to owners of the Company of RM47.9 million) divided by the weighted average number of 525.0 million (2017: 525.0 million) ordinary shares in issue during the financial year. The basic earnings per ordinary share for the financial year ended 31 December 2017 has been recomputed to take into consideration the share split as disclosed in Note 13.

The weighted average number of ordinary shares in issue has not been adjusted to assume dilution as the Group does not issue any financial instruments or other contract that may entitle its holders to ordinary shares. Accordingly, the diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share.

26 DIRECTORS' REMUNERATION

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors of the Company				
Non-executive Directors:				
- fees	233	264	233	264
- allowances and other emoluments	37	44	37	44
	270	308	270	308
Executive Directors:				
- salaries and bonus	3,352	1,506	3,352	1,506
- defined contribution plan	402	181	402	181
- other employee benefits	2	1	2	1
	3,756	1,688	3,756	1,688
Total	4,026	1,996	4,026	1,996

27 CAPITAL COMMITMENTS

	Group 2018 RM'000	2017 RM'000
Approved and contracted for:		
(a) Proposed acquisition of 100% issued capital of Great Platform Sdn. Bhd.	0	57,886
(b) Capital expenditure:		
- property, plant and equipment	14,029	931

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to related party disclosures disclosed elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions negotiated between the Group and the related parties.

(a) Relationship with related parties

Related parties	Relationship
BRDB Developments Sdn. Bhd.	Former immediate holding company
BR Property Holdings Sdn. Bhd.	Subsidiary of a former immediate holding company
Mieco Manufacturing Sdn. Bhd.	Wholly-owned subsidiary
Great Platform Sdn. Bhd.	Wholly-owned subsidiary
Mieco Marketing Sdn. Bhd.	Wholly-owned subsidiary
Tudor Capital Sdn. Bhd.	Wholly-owned subsidiary
Seng Yip Furniture Sdn. Bhd.	A Director of the Company is a director and has substantial financial interest in this company
Kiara Susila Sdn. Bhd.	A Director of the Company has substantial financial interest in this company

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

(b) Significant transactions with related parties

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
BRDB Developments Sdn. Bhd.				
- Interest expense	1,242	1,671	1,242	1,671
Mieco Manufacturing Sdn. Bhd.				
- Interest income	0	0	(1,242)	(1,671)
- Management fee receivable	0	0	(5,324)	(3,633)
Seng Yip Furniture Sdn. Bhd.				
- Purchase of logs, slabs and sawdust	14,789	8,225	0	0
- Sales of chipboards	(6,719)	(2,272)	0	0
- Rental income	(510)	(60)	0	0
- Commission paid	286	26	0	0
Great Platform Sdn. Bhd.				
- Purchase of chipboards	0	2,175	0	0
- Sales of chipboards	0	(118)	0	0
Kiara Susila Sdn. Bhd.				
- Rental of office building	96	112	0	0

(c) Significant balances with related parties

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Amount due to former immediate holding company				
BRDB Developments Sdn. Bhd.	32,038	40,419	32,038	40,419
Amount due to a former related company				
BR Property Holdings Sdn. Bhd.	747	961	0	0
Amount due from/(to) subsidiaries				
Mieco Manufacturing Sdn. Bhd.	0	0	268,778	341,209
Great Platform Sdn. Bhd.	0	0	51,529	0
Mieco Marketing Sdn. Bhd.	0	0	5,494	5,494
Tudor Capital Sdn. Bhd.	0	0	(3,411)	(3,411)
Amount due to related parties				
Seng Yip Furniture Sdn. Bhd.	7,293	259	0	0
Great Platform Sdn. Bhd.	0	352	0	0

28 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

(d) Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including Directors of the Company.

The remuneration of key management personnel during the financial year are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Remuneration and benefits	3,354	1,708	3,354	1,708
Post-employment benefits	402	206	402	206
	3,756	1,914	3,756	1,914

29 OPERATING SEGMENT

The Group operates principally within one segment, that is, manufacturing and sales of wood based products. Other operation of the Group comprises investment holding which is not of sufficient size to be reported separately. This is consistent with the internally generated reports reviewed by Board of Directors to make strategic decisions.

The products of the Group were sold to the following geographical areas.

	Revenue	
	2018 RM'000	2017 RM'000
Malaysia	324,226	260,831
Hong Kong and China	32,940	23,241
Others	62,681	65,234
	419,847	349,306

	Total assets		Capital expenditure	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Malaysia	730,882	598,919	24,290	27,708

The carrying value of non-current assets located in foreign countries is not material as at the reporting date.

30 FINANCIAL INSTRUMENTS BY CATEGORY

The table below provides an analysis of the financial instruments by category.

Group	Financial assets at fair value through profit or loss 2018 RM'000	Financial assets at fair value through profit or loss 2017 RM'000	Financial assets at amortised cost 2018 RM'000	Financial assets at amortised cost 2017 RM'000	Loans and receivables 2018 RM'000	Loans and receivables 2017 RM'000	Financial liabilities at amortised cost 2018 RM'000	Financial liabilities at amortised cost 2017 RM'000
Financial Assets								
Current								
Derivative financial instruments	34	50	0	0	0	0	0	0
Receivables and deposits	0	0	74,887	0	0	65,239	0	0
Amount due from subsidiaries	0	0	0	0	0	0	0	0
Cash and bank balances	0	0	25,535	0	0	18,136	0	0
	34	50	100,422	0	0	83,375	0	0
Financial Liabilities								
Non-current								
Amount due to former immediate holding company	0	0	0	0	0	0	17,252	30,543
Other payables	0	0	0	0	0	0	400	721
Borrowings	0	0	0	0	0	0	119,802	14,745
	0	0	0	0	0	0	137,454	46,009
Current								
Trade and other payables	0	0	0	0	0	0	108,045	61,173
Amount due to former immediate holding company	0	0	0	0	0	0	14,786	9,876
Borrowings	0	0	0	0	0	0	116,516	66,074
	0	0	0	0	0	0	239,347	137,123

30 FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

Company	Financial assets at amortised cost		Loans and receivables		Financial liabilities at amortised cost	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financial Assets						
Non-current						
Amount due from subsidiaries	306,868	0	0	332,337	0	0
Current						
Receivables and deposits	109	0	0	838	0	0
Amount due from subsidiaries	18,942	0	0	14,376	0	0
Cash and bank balances	214	0	0	247	0	0
	19,265	0	0	15,461	0	0
Financial Liabilities						
Non-current						
Amount due to former immediate holding company	0	0	0	0	17,252	30,543
Current						
Trade and other payables	0	0	0	0	911	1,140
Amount due to subsidiaries	0	0	0	0	3,426	3,426
Amount due to former immediate holding company	0	0	0	0	14,786	9,876
	0	0	0	0	19,123	14,442

31 FINANCIAL GUARANTEE CONTRACTS

	Company	
	2018 RM'000	2017 RM'000
Financial guarantees (unsecured) issued by the Company to licensed financial institutions for banking facilities granted to a subsidiary	250,384	89,366

32 NET CURRENT LIABILITIES – GOING CONCERN

The Group incurred net loss for the financial year ended 31 December 2018 of RM60.6 million. As of 31 December 2018, the current liabilities of the Group have exceeded the current assets by RM75.5 million.

The Board of Directors of the Company is of the view that the Group will be able to operate as going concern in the foreseeable future as the Group currently has adequate banking facilities to support its working capital requirements while various measures are being taken to improve its financial position and return to profitability.

These actions include the following:-

(a) Development of the market for melamine faced chipboard (MFC) with marketing efforts targeted at the local renovation and fit-out sector. In line with this, capacity for production of MFC has been increased.
(b) In the plain board segment, the product mix is gradually being improved by building up sales of higher grade boards with better pricing. At the same time, production planning, procedures and control and machinery maintenance will be improved to increase capacity utilisation.
(c) Improvement in sourcing and procurement of raw materials to reduce cost.
(d) Streamlining and rationalisation of the Group's production facilities.

In addition, the Company will consider embarking on a capital raising exercise including a private placement and rights issue when necessary.

33 SUBSEQUENT EVENT

On 18 March 2019, a wholly-owned subsidiary of the Company has entered into a lease agreement with a third party to lease out the 3 pieces of freehold industrial land, together with the machineries and buildings located in Gerik, Perak. The lease is for a duration of 15 years and the monthly rental is RM267,447.

STATEMENT BY DIRECTORS
Pursuant to Section 251(2) of the Companies Act, 2016

The Directors of Mieco Chipboard Berhad state that, in their opinion, the accompanying financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2018 and of the financial performance and the cash flows of the Group and of the Company for the year ended on that date.

Signed on behalf of the Board of Directors in accordance with their resolution dated 19 April 2019.

DATO' SRI NG AH CHAI
DIRECTOR

NG WEI PING
DIRECTOR

STATUTORY DECLARATION
Pursuant to Section 251(1) of the Companies Act, 2016

I, Ng Wei Ping, the Director primarily responsible for the financial management of Mieco Chipboard Berhad, do solemnly and sincerely declare that the accompanying financial statements are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

NG WEI PING

Subscribed and solemnly declared by the abovenamed Ng Wei Ping at Kuala Lumpur in Federal Territory, this 19th day of April 2019.

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT
To The Members Of Mieco Chipboard Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of **MIECO CHIPBOARD BERHAD**, which comprise the statements of financial position of the Group and of the Company as at 31 December 2018 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 51 to 120.

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 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 of Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Material Uncertainty Related to Going Concern

We draw attention to Note 32 to the financial statements, which indicates that the Group incurred net loss of RM60.6 million for the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by RM75.5 million. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (cont'd)

Key audit matters	***Our audit performed and responses thereon***
<u>**Impairment of property, plant and equipment**</u> In view of the losses incurred during the financial year, the directors made an annual impairment assessment of the property, plant and equipment. As a result, an impairment of the property, plant and equipment of RM26.1 mil was recognised during the current financial year. The recoverable amount were determined by the directors based on value-in-use and fair value less cost to sell. The key basis and assumptions used in the estimation of the recoverable amount involved a significant degree of management judgement. More details are disclosed in Note 6.	Our audit procedures, among others, included: • Involvement of our own valuation specialist to review the appropriateness of the impairment model; • We performed retrospective review of the cash flow projection used in the model to assess the reliability of management's estimates; • We challenged the reasonableness of the key basis and assumptions underpinning the model, including sale and production volume growth, cost of raw materials, selling price growth and discount rate used; • The Group engaged independent valuers to determine the market value of the properties; • We made comparison of the carrying amount against the values determined by the independent valuers to evaluate whether impairment has been incurred; • We assessed the competency, capabilities and objectivity of the valuers and verified their qualifications and challenged the variables and assumptions used in the valuations; and • We performed sensitivity analysis on management's assumptions to reflect reasonably possible future alternative scenarios.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

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

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining other information included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016, we also report that in the case of consolidated financial statements, the names of the subsidiaries, of which we have not acted as auditors, are indicated 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 contents of this report.

DELOITTE PLT (LLP0010145-LCA)
Chartered Accountants (AF 0080)

TEO SWEE CHUA
Partner - 02846/01/2020 J
Chartered Accountant

Kuala Lumpur
19 April 2019

ANALYSIS OF SHAREHOLDINGS
As At 9 April 2019

Issued and Fully Paid-Up Capital	:	RM525,000,000
Class of Shares	:	Ordinary Shares
Voting Rights	:	1 vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Holdings	No. of Holders	% of Holders	No. of Shares	% of Shares
Less than 100	712	10.45	16,548	0.00
100 – 1,000	462	6.78	223,819	0.04
1,001 – 10,000	3,120	45.79	16,261,782	3.10
10,001 – 100,000	2,168	31.82	72,615,474	13.83
100,001 – less than 5% of issued shares	349	5.12	272,659,950	51.94
5% and above of issued shares	3	0.04	163,222,427	31.09
Total	6,814	100.00	525,000,000	100.00

DIRECTORS' INTEREST IN SHARES BASED ON THE REGISTER OF DIRECTORS' SHAREHOLDINGS

	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
In the Company				
Dato' Sri Ng Ah Chai	298,045,137	56.77	-	-

THIRTY (30) MAJOR SHAREHOLDERS BASED ON THE RECORD OF DEPOSITORS

	Name	Shareholding	%
1)	RHB Nominees (Tempatan) Sdn Bhd *OSK Capital Sdn Bhd for Ng Ah Chai*	87,147,427	16.60
2)	Maybank Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai*	40,000,000	7.62
3)	M&A Nominee (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai (M&A)*	36,075,000	6.87
4)	M&A Nominee (Tempatan) Sdn Bhd *Insas Credit & Leasing Sdn Bhd for Ng Ah Chai*	23,060,210	4.39
5)	Alliancegroup Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai (8103749)*	20,500,000	3.90
6)	JF Apex Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai (Margin)*	19,200,000	3.66

ANALYSIS OF SHAREHOLDINGS
As At 9 April 2019 (Cont'd)

THIRTY (30) LARGEST SHAREHOLDERS BASED ON THE RECORD OF DEPOSITORS (Cont'd)

	Name	Shareholding	%
7)	RHB Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai*	16,775,000	3.20
8)	CIMSEC Nominees (Tempatan) Sdn Bhd *CIMB Bank for Ng Ah Chai (PBCL-0G0503)*	15,750,000	3.00
9)	Alliancegroup Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai (100426)*	9,450,000	1.80
10)	RHB Capital Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai*	7,850,000	1.50
11)	Amsec Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai*	7,700,000	1.47
12)	Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for Citibank New York (Norges Bank 14)*	6,963,700	1.33
13)	MIDF Amanah Investment Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai (MGN-NAC0003M)*	6,750,000	1.29
14)	RHB Capital Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Chee Chik Eng*	5,280,000	1.01
15)	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tee Tiam Hock	4,986,300	0.95
16)	JF Apex Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Lee Kim Song (Margin)*	4,580,200	0.87
17)	Ng Ah Chai	4,137,500	0.79
18)	Affin Hwang Nominees (Tempatan) Sdn Bhd *Pledged Securities Account For Chua Hock Gee*	3,977,300	0.76
19)	Citigroup Nominees (Tempatan) Sdn Bhd *Kumpulan Wang Persaraan (Diperbadankan) (UOB AM SC EQ)*	2,900,000	0.55
20)	Kenanga Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Ah Chai (001)*	2,850,000	0.54
21)	RHB Capital Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Chee Chik Keng*	2,457,500	0.47
22)	Tan Chong Yen	2,300,000	0.44
23)	Lim Hock Ho	2,227,000	0.42
24)	Lee Pei Mei	2,180,000	0.41
25)	Wang, Kun-Lung	2,100,800	0.40
26)	JF Apex Nominees (Tempatan) Sdn Bhd *Pledged Securities Account For Chee Chik Eng (Margin)*	1,858,300	0.35
27)	Ng Yune Ming	1,600,000	0.30

ANALYSIS OF SHAREHOLDINGS
As At 9 April 2019 (Cont'd)

THIRTY (30) LARGEST SHAREHOLDERS BASED ON THE RECORD OF DEPOSITORS (Cont'd)

	Name	Shareholding	%
28)	Ong Ngoh Ing @ Ong Chong Oon	1,500,000	0.29
29)	JF Apex Nominees (Tempatan) Sdn Bhd *AISB For Lee Teik Aun (Sta 3)*	1,350,000	0.26
30)	Lim Kian Wat	1,313,900	0.25

SUBSTANTIAL SHAREHOLDER BASED ON THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
Dato' Sri Ng Ah Chai	298,045,137	56.77	-	-

LIST OF PROPERTIES
As At 31 December 2018

Location	Tenure	Land area	Description	Approximate age of building (Years)	Net book value RM'000	Acquisition date	Balance of lease by Year
Mieco Manufacturing Sdn Bhd Lot 73, Gebeng Industrial Area 26080 Kuantan Pahang Darul Makmur	Lease expiring 18.08.2048	653,670 sq.ft.	Warehouse & Industrial land	3	13,355	26.10.1999	30
Mieco Manufacturing Sdn Bhd Lot 74, Gebeng Industrial Area 26080 Kuantan Pahang Darul Makmu	Lease expiring 22.02.2097	1,254,528 sq.ft.	Chipboard factory & Industrial Land	16-24	35,366	24.08.1995	79
Mieco Manufacturing Sdn Bhd Lot 3, Kawasan Perindustrian Kechau Tui 27100 Lipis Pahang Darul Makmur	Lease expiring 2104	2,178,000 sq. ft.	Chipboard factory & Industrial Land	14	72,746	05.12.2004	86
Mieco Manufacturing Sdn Bhd Lot 27, Kawasan Perindustrian Kechau Tui, Lipis Pahang Darul Makmur	Lease expiring 20.12.2105	158,253 sq.ft.	Industrial land		208	20.12.2006	87
Mieco Manufacturing Sdn Bhd Lot 28, Kawasan Perindustrian Kechau Tui, Lipis Pahang Darul Makmur	Lease expiring 20.12.2105	299,257 sq.ft.	Industrial land		394	20.12.2006	87
Mieco Manufacturing Sdn Bhd Lot 29, Kawasan Perindustrian Kechau Tui, Lipis Pahang Darul Makmur	Lease expiring 20.12.2105	304,484 sq.ft.	Industrial land		400	20.12.2006	87

LIST OF PROPERTIES
As At 31 December 2018 (Cont'd)

Location	Tenure	Land area	Description	Approximate age of building (Years)	Net book value RM'000	Acquisition date	Balance of lease by Year
Mieco Manufacturing Sdn Bhd Lot 30, Kawasan Perindustrian Kechau Tui, Lipis Pahang Darul Makmur	Lease expiring 20.12.2105	281,398 sq.ft.	Industrial land		370	20.12.2006	87
Great Platform Sdn Bhd Lot PT 1150, Mukim Gemas 73400 Daerah Tampin Negeri Sembilan	Freehold	563,882 sq.ft.	Land, office, factory and warehouse	6	16,392	23.12.2011	
Great Platform Sdn Bhd Lot 7056, Pekan Simpang Pertang 72300 Daerah Jelebu Negeri Sembilan	Lease expiring 18.06.2094	281,692 sq.ft.	Land, office, factory and warehouse	5	11,755	15.11.2013	76
Great Platform Sdn Bhd Lot 436, 437 & 488 Jalan Bahau, Rompin 73500 Bahau Negeri Sembilan	Freehold	1,744,849 sq.ft.	Land, office, factory and warehouse	2	22,020	10.06.2016	
Great Platform Sdn Bhd Batu 103, Jalan Klian Intan 33310 Gerik Perak	Freehold	934,523 sq.ft.	Land, office, factory and warehouse	2	11,220	13.01.2017	
Great Platform Sdn Bhd Lot 4656,4657, Pekan Simpang Pertang 72300 Daerah Jelebu Negeri Sembilan	Lease expiring 18.06.2089	13,522 sq.ft	Industrial land		1,075	06.04.2017	71

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-Sixth Annual General Meeting (46th AGM) of Mieco Chipboard Berhad (MIECO or Company) will be held at Melati Room, Level 2, Bangi Resort Hotel, Off Persiaran Bandar, 43650 Bandar Baru Bangi, Selangor on Thursday, 30 May 2019 at 10:00 a.m.

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 and the Reports of the Directors and Auditors thereon.

AS ORDINARY BUSINESS

2. To approve the Payment of Directors' fees and benefits to the Non-Executive Directors up to an amount of RM250,000.00 from 31 May 2019 until the next Annual General Meeting of the Company. — Ordinary Resolution 1 (Please refer to Explanatory Note 1)

3. To re-elect the following Directors retiring in accordance with the Articles 81 of the Company's Articles of Association and who, being eligible, offer themselves for re-election:

    (i) Dato' Sri Ng Ah Chai — Ordinary Resolution 2

    (ii) Dato' Abdul Rashid Bin Mat Amin — Ordinary Resolution 3

4. To re-elect Datuk Dr. Roslan Bin A. Ghaffar, the Director who is retiring pursuant to Article 88 of the Company's Articles of Association, and being eligible, offered himself for re-election. — Ordinary Resolution 4

5. To re-appoint Deloitte PLT (LLP0010145-LCA) as auditors of the Company and to authorise the Directors to fix their remuneration. — Ordinary Resolution 5

AS SPECIAL BUSINESS

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

6. **Authority to Issue Shares**

    "THAT, subject always to the Companies Act 2016, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, if applicable, the Directors be and are hereby empowered, pursuant to Section 75 and Section 76 of the Companies Act 2016, to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided that the aggregate number of shares issued pursuant to this Resolution does not exceed 10% of the total number of issued shares of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company." — Ordinary Resolution 6 (Please refer to Explanatory Note 2)

7. **Proposed Renewal of Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate")**

"THAT, subject to the provisions of the Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and/or its subsidiary companies to enter into recurrent related party transactions of a revenue or trading nature as set out in the Circular to Shareholders dated 30 April 2019, provided that such transactions are undertaken in the ordinary course of business, on arm's length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders;

Ordinary Resolution 7
(Please refer to
Explanatory Note 3)

THAT such approval shall continue to be in force until the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company at which time it will lapse unless the authority is renewed by a resolution passed at the next Annual General Meeting;

(ii) the expiration of the period within which the next Annual General Meeting is to be held pursuant to Section 340(2) of the Companies Act 2016 ("the Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(iii) such approval is revoked or varied by resolution passed by shareholders in a general meeting before the next Annual General Meeting;

AND THAT the Directors of the Company be authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to this Ordinary Resolution."

8. **Proposed Renewal of Authority for the Company to Purchase Its Own Shares ("Proposed Renewal of Share Buy-Back")**

"THAT, subject always to the Companies Act 2016, the provisions of the Articles of Association of the Company, the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities as the Directors may deem fit and expedient in the interest of the Company, provided that:

Ordinary Resolution 8
(Please refer to
Explanatory Note 4)

(i) the aggregate number of shares purchased does not exceed 10% of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase(s);

(ii) the maximum fund to be allocated by the Company for the purpose of purchasing the shares shall not exceed the aggregate of the retained profits of the Company based on the latest Audited Financial Statements and/or the latest management accounts of the Company (where applicable) available at the time of the purchase(s); and

(iii) the Directors of the Company may decide either to retain the shares purchased as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder or to resell the shares or distribute the shares as dividends;

THAT the authority conferred by this Resolution shall commence immediately and shall continue to be in force until the conclusion of the next Annual General Meeting of the Company following the passing of this Ordinary Resolution, unless earlier revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting;

AND THAT authority be and is hereby given to the Directors of the Company to act and take all such steps and do all things as are necessary or expedient to implement, finalise and give full effect to the aforesaid purchase."

9. **Proposed Adoption of the New Constitution of the Company ("Proposed Adoption")**

"THAT approval be and is hereby given to revoke the existing Memorandum and Articles of Association of the Company in its entirety and in place thereof, a new constitution as set out in Appendix II of the Circular to Shareholders dated 30 April 2019 be and is hereby adopted as the Constitution of the Company with immediate effect;

Special Resolution (Please refer to Explanatory Note 5)

AND THAT the Directors of the Company be and are hereby authorised to do all such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Adoption with the full power to assent to any conditions, modification, and/or amendments as may be required by any relevant authorities to give effect to the Proposed Adoption;

10. To transact any other business of which due notice shall have been given.

By Order of the Board

NG GEOK LIAN (LS 0007155)
COMPANY SECRETARY

Cheras, Selangor.
30 APRIL 2019

NOTES:

1. A proxy may but need not be a member of the Company and a member shall be entitled to appoint a maximum of two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholding to be represented by each proxy.

2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint up to two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

3. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owner in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account its holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.

4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, the Form of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.

5. For a proxy to be valid, the Form of Proxy duly completed must be deposited at the office of the Share Registrar, Metra Management Sdn. Bhd. at 35th Floor, Menara Multi-Purpose, Capital Square, No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting or at any adjournment thereof.

6. For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company a Record of Depositors ("ROD") as at 21 May 2019 and only a Depositor whose name appears on such ROD shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his/her behalf.

Explanatory Notes on Ordinary Business:

1. The Ordinary Resolution 1, Section 230(1) of the Companies Act 2016 provides amongst others, that the fees of the Directors and any benefits payable to the Directors of a listed company shall be approved at a general meeting.

   The total estimated Directors' fees and benefits payable to Non-Executive Directors are calculated based on the current Board of Directors ("Board") size and the number of scheduled Board's and Board Committees' meetings for the period from 31 May 2019, being the day after the Forty-Sixth Annual General Meeting until the next Annual General Meeting and other benefits.

   In the event that the proposed Directors' fees and benefits payable to Non-Executive Directors are insufficient due to enlarged size of the board of directors, approval will be sought at the next AGM for additional Directors' fees and benefits to meet the shortfall.

   Resolution 1, if passed, will facilitate the payment of Directors' fees and benefits to Non-Executive Directors on a monthly basis and/or as and when required. The Board is of the view that Directors should be paid such fees and meeting allowances upon them discharging their responsibilities and rendering their services to the Company. This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next Annual General Meeting of the Company.

NOTICE OF ANNUAL GENERAL MEETING
(Cont'd)

Explanatory Notes on Special Business:

2. The Ordinary Resolution 6, if passed, will give the Directors of the Company authority to issue shares in the Company up to an amount not exceeding 10% of the total number of issued shares/total number of voting shares of the Company for the time being for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied by the shareholders of the Company in general meeting will expire at the conclusion of the next Annual General Meeting. This General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

3. The Ordinary Resolution 7, if passed, will allow the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with those related parties as set out in Section 2.1.3 of the Circular to Shareholders dated 30 April 2019, which are necessary for the day-to-day operations of the Company and/or its subsidiaries, subject to the transactions being carried out in the ordinary course of business of the Company and/or its subsidiaries and on normal commercial terms which are generally available to the public and not detrimental to the minority shareholders of the Company.

   For further information on this resolution, please refer to the Circular to Shareholders dated 30 April 2019 which is despatched together with the Annual Report 2018.

4. The Ordinary Resolution 8, if passed will allow the Company to purchase its own shares. The total number of shares purchased shall not exceed 10% of the total number of issued shares of the Company. This authority will, unless revoked or varied by the Company in general meeting, expires at the next Annual General Meeting of the Company.

   For further information on this resolution, please refer to the Circular to Shareholders dated 30 April 2019 which is despatched together with the Annual Report 2018.

5. The Special Resolution, if passed, will allow the company to adopt a new Constitution taking into account the Act which came into effect from 31 January 2017 and to be in line with the amendments to the Listing Requirements that came into effect 1 January 2018.

   For further information on this resolution, please refer to the Circular to Shareholders dated 30 April 2019 which is despatched together with the Annual Report 2018.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING
(Pursuant to Paragraph 8.27(2) of the Listing Requirements of Bursa Malaysia Securities Berhad)

1. No individual is standing for election as a Director at the forthcoming Forty-Sixth Annual General Meeting of the Company.

MIECO

Mieco Chipboard Berhad
(12849-K) (Incorporated in Malaysia)

FORM OF PROXY

CDS ACCOUNT NO.																
			-				-									

I/We ______________________________ Tel No. ______________
(FULL NAME IN BLOCK CAPITALS)

NRIC No./Company No. ______________________ of ______________________
(ADDRESS)

____ being a Member

of **MIECO CHIPBOARD BERHAD**, hereby appoint ______________________________
(FULL NAME IN BLOCK CAPITALS)

NRIC No. ______________________ of ______________________________
(ADDRESS)

or failing him, ______________________________ NRIC No. ______________
(FULL NAME IN BLOCK CAPITALS)

of ____ or failing him,
(ADDRESS)

the CHAIRMAN OF THE MEETING as my/our proxy to vote on my/our behalf at the Forty-Sixth Annual General Meeting of the Company to be held at Melati Room, Level 2, Bangi Resort Hotel, Off Persiaran Bandar, 43650 Bandar Baru Bangi, Selangor on Thursday, 30 May 2019 at 10.00 a.m. and at any adjournment thereof.

No.	Agenda	FOR	AGAINST
Ordinary Business			
1	Ordinary Resolution 1 - To approve the payment of Directors' fees and benefits to the Non-Executive Directors up to an amount of RM250,000.00 from 31 May 2019 until the next Annual General Meeting of the Company.		
2	Ordinary Resolution 2 - To re-elect Dato' Sri Ng Ah Chai who retires by rotation in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.		
3	Ordinary Resolution 3 - To re-elect Dato' Abdul Rashid Bin Mat Amin who retires by rotation in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.		
4	Ordinary Resolution 4 -To re-elect Datuk Dr. Roslan Bin A. Ghaffar who retires by rotation in accordance with Article 88 of the Company's Articles of Association and being eligible, offers himself for re-election.		
5	Ordinary Resolution 5 - To re-appoint Deloitte PLT (LLP0010145-LCA) as Auditors for the ensuing year and to authorise the Board of Directors to fix their remuneration		
Special Business			
6	Ordinary Resolution 6 – Authority to Issue Shares		
7	Ordinary Resolution 7 - Proposed Shareholders' Mandate		
8	Ordinary Resolution 8 - Proposed Renewal of Share Buy-Back		
9	Special Resolution - Proposed Adoption		

Please indicate with an "X" how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.

As witness my/our hand(s) this _______ day of ____________, 2019.

For appointment of two (2) proxies, percentage of shareholdings to be represented by the two (2) proxies		
	No. Of Shares	Percentage
Proxy 1		
Proxy 2		
Total		**100**

Number Of Shares Held

____
Signature Of Member

Fold this flap for sealing

Notes:

1. *A proxy may but need not be a member of the Company and a member shall be entitled to appoint a maximum of two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his shareholding to be represented by each proxy.*
2. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("SICDA"), it may appoint up to two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*
3. *Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owner in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account its holds. An exempt authorised nominee refers to an authorised nominee defined under the Securities Industry (Central Depositories) Act 1991 ("SICDA") which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.*
4. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, the Form of Proxy must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.*
5. *For a proxy to be valid, the Form of Proxy duly completed must be deposited at the office of the Share Registrar, Metra Management Sdn. Bhd. at 35th Floor, Menara Multi-Purpose, Capital Square, No. 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting or at any adjournment thereof.*
6. *For purpose of determining who shall be entitled to attend this meeting, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company a Record of Depositors ("ROD") as at 21 May 2019 and only a Depositor whose name appears on such ROD shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his/her behalf.*

Then fold here

AFFIX
STAMP

The Share Registrar
Metra Management Sdn. Bhd.
35th Floor, Menara Multi-Purpose,
Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur, Malaysia

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