DeGem Berhad

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Annual report 2018

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Second ("22nd") Annual General Meeting of the members of the Company will be held at RG Dining, Level R, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 12 June 2019, at 10.30 a.m. for the purpose of transacting the following businesses:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and Auditors thereon. **Please refer Notes No. 8(a)**

2. To re-elect the following Directors who retire pursuant to the Company's Articles of Association and, being eligible, offer themselves for re-election: -

   (a) Mr. Choong Kai Soon Article 100 **Ordinary Resolution 1**

   (b) Mr. Choong Kay Cheong Article 100 **Ordinary Resolution 2**

   (c) Dato' Koh Hong Sun Article 100 **Please refer Notes No. 8(c)**

   Dato' Koh Hong Sun who is retiring pursuant to Article 100 of the Company's Articles of Association, will be retiring at the conclusion of this 22nd Annual General Meeting.

3. To approve the payment of Directors' fees of RM600,000/-in respect of the financial year ended 31 December 2018. **Ordinary Resolution 3**

4. To approve the payment of Directors' benefits up to an amount of RM100,000/- from the 22nd Annual General Meeting until the 23rd Annual General Meeting of the Company. **Ordinary Resolution 4**

5. To re-appoint Baker Tilly Monteiro Heng PLT as Auditors of the Company and to authorise the Directors to fix their remuneration. **Ordinary Resolution 5**

SPECIAL BUSINESS

To consider and if taught fit, to pass the following Ordinary and Special Resolutions

6. Authority to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016 **Ordinary Resolution 6**

"THAT subject always to the Companies Act 2016, Articles of Association of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and approvals of any other governmental/regulatory bodies where such approval is required, the Directors be and are hereby authorised and empowered pursuant to Sections 75 and 76 of the Companies Act 2016, to allot and issue shares in the Company, to such persons, at any time 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 does not exceed ten percent (10%) of the total number of issued shares for the time being of the Company 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 Securities AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting ("AGM") of the Company after the approval was given or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier."

7. Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed Shareholders' Mandate") **Ordinary Resolution 7**

"THAT, subject to the provisions of the Main Market Listing Requirements of Bursa Securities, approval be and is hereby given for the Proposed Shareholders' Mandate for the Company and/or its subsidiary companies ("the Group") to enter into and to give effect to the category of Recurrent Related Party Transactions of a Revenue or Trading nature from time to time with the Related Party as specified in Part A of the Circular to Shareholders dated 30 April 2019 provided that such transactions are:-

(a) recurrent transactions of a revenue or trading nature;
(b) necessary for the day-to-day operations;
(c) undertaken in the ordinary course of business and at arm's length basis and on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and
(d) are not detrimental to the minority shareholders of the Company

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

(a) the conclusion of the next AGM of the Company following this AGM at which the Renewal of Shareholders' Mandate is passed, at which time it will lapse unless authority is renewed by a resolution passed at the next AGM; or

(b) the expiration of the period within which the next AGM 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

(c) is revoked or varied by resolution passed by shareholders of the Company in a General Meeting,

whichever is earlier,

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

8. Proposed Renewal of Share Buy-Back Authority **Ordinary Resolution 8**

"THAT, subject to compliance with Section 127 of the Companies Act 2016 ("the Act"), the Memorandum and Articles of Association of the Company, the Main Market Listing Requirements of Bursa Securities and all other applicable laws, regulations, the Company be and is hereby authorised to allocate an amount not exceeding the total available retained profits of the Company for the purpose of and to purchase such amount of ordinary shares in the Company ("Proposed Purchase") as may be determined by the Directors of the Company from time to time through Bursa Securities as the Directors may deem fit in the interest of the Company provided that the aggregate number of shares purchased and/or held pursuant to this resolution does not exceed ten percent (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase;

AND THAT upon completion of the purchase by the Company of its own shares, the Directors are authorised to retain the shares as treasury shares or cancel the shares or retain part of the shares so purchased as treasury shares and cancel the remainder AND THAT the Directors are further authorised to resell the treasury shares on Bursa Securities or distribute the treasury shares as dividends to the Company's shareholders or to deal with the treasury shares in the manners as allowed by the Act;

AND THAT the Directors be and are hereby empowered to carry out the above immediately upon the passing of this resolution and from the date of the passing of this resolution until:

(a) the conclusion of the next AGM of the Company following at which time the authority shall lapse unless by an ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or

(b) the expiration of the period within which the next AGM is required by law to be held; or

(c) revoked or varied by ordinary resolution passed by the shareholders at a General Meeting,

whichever occurs first but not to prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provision of the Listing Requirements and any other relevant authorities AND THAT authority be and is hereby given to Directors of the Company to take all steps as are necessary and/or to do all such acts and things as the Directors deem fit and expedient in the interest of the Company to give full effect to the Proposed Purchase with full powers to assent to any condition, modification, revaluation, variation and/or amendment (if any) as may be imposed by the relevant authorities."

9. Continuing in office of Mr. Leou Thiam Lai as Independent Non-Executive Director **Ordinary Resolution 9**

"THAT authority be and is hereby given to Mr. Leou Thiam Lai who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby retained as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting."

10. Continuing in office of Datuk Zainun Aishah binti Ahmad as Independent Non-Executive Director **Ordinary Resolution 10**

"THAT authority be and is hereby given to Datuk Zainun Aishah binti Ahmad who has reserved as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby retained as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting."

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

"THAT approval be and is hereby given to revoke the existing Memorandum and Articles of Association of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company 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 AND THAT the Directors of the Company be and are hereby authorised to assent to any modification, variation and/or amendment as may be required by the relevant authorities and to do all acts and things and take all such steps as may be considered necessary to give full effect to the Proposed Adoption of the New Constitution."

12. To transact any other business for which due notice has been given.

BY ORDER OF THE BOARD

ANDREA HUONG JIA MEI (MIA 36347)
Company Secretary

Kuala Lumpur
30 April 2019

DeGem
Auspicious Dragon Bangle with South Sea Pearl

Notes:

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint up to two (2) proxies to attend and vote instead of him/her. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.

2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositors) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. The appointment of two (2) or more proxies in respect of any particular securities account shall be invalid unless the authorised nominee specifies the proportion of its shareholding to be represented by each proxy.

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

4. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.

5. The Proxy Form must be deposited at the Share Registrar's Office, Boardroom Share Registrars Sdn. Bhd. (Formerly known as Symphony Share Registrars Sdn. Bhd.) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor not less than forty-eight (48) hours before the time set for the meeting or any adjournment thereof.

6. Pursuant to Paragraph 8.29A (1) of the Main Market Listing Requirements of Bursa Securities, all the Resolutions set out in this Notice will be put to vote by poll.

7. **General Meeting Record of Depositors**
   For purposes of determining who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 54(c) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 4 June 2019 and a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his stead.

8. **Explanatory Notes on Ordinary and Special Business:**

   (a) Audited Financial Statements for the financial year ended 31 December 2018
   The audited financial statements are for discussion only under Agenda 1, as it does not require shareholders' approval under the provision of Section 340(1)(a) of the Companies Act, 2016. Hence, this item in the agenda is not put forward for voting by shareholders of the Company.

   (b) Resolutions No. 3 and 4 - Director's Benefits Payable
   Pursuant to Section 230 (1) of the Companies Act 2016, the fees and benefits payable to the Directors of the Company will have to be approved by the shareholders at a general meeting.

   The proposed Directors Benefits payable comprised allowances and other benefits. The total estimated amount of Director's benefit payable is calculated based on the number of scheduled Board's and Board's Committee Meeting from 13 June 2019 (being the day after the 22nd AGM) until the 23rd AGM. In the event, the proposed amount is insufficient due to more meetings or enlarged Board size, approval will be sought at the next AGM for the shortfall.

   (c) Retirement of Director
   Article 100 of the Company's Articles of Association states that one-third (1/3) of the Directors shall retire from office and shall be eligible for re-election at each AGM. All Directors shall retire from office at least once in three (3) years but shall be eligible for re-election. A retiring Director shall retain office until the close of the meeting at which he retires.

   Dato. Koh Hong Sun who is retiring pursuant to Article 100 of the Company's Articles of Association, has indicated that he does not wish to seek for re-election at this 22nd Annual General Meeting of the Company. Hence, he shall cease to be a Director of the Company at the conclusion of the 22nd Annual General Meeting.

(d) Authority to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016

Resolution No. 6 is to seek a renewal of the general mandate for the issue of new ordinary shares pursuant to Sections 75 and 76 of the Companies Act 2016 which was approved by shareholders at last year's AGM ("the previous mandate"). As the date of this Notice, the Company did not allot any shares pursuant to the previous mandate.

The proposed Resolution No. 6, if passed, will empower the Directors of the Company to issue and allot new shares in the Company at any time and for such purposes as the Directors considered would be in the interests of the Company up to an aggregate not exceeding ten percent (10%) of the total number of issued shares of the Company without convening a general meeting. This authority, unless revoked or varied at a general meeting will expire at the conclusion of the next AGM or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier.

The renewed mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding investment project(s), working capital and/or acquisition.

(e) Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

Resolution No. 7, if passed, will authorise the Company and/or its subsidiaries to enter into recurrent related party transactions with related parties in the ordinary course of business which are necessary for the Group's day-to-day operations and are on terms not more favourable to the related parties than those generally available to the public and shall lapse at the conclusion of the next AGM unless authority for its renewal is obtained from the shareholders of the Company at a General Meeting. For further information, please refer to Part A of the Circular to Shareholders dated 30 April 2019, which is circulated together with this Annual Report.

(f) Resolution pursuant to Proposed Renewal of Share Buy-Back Authority

Resolution No. 8, if passed, will empower the Company to purchase and/or hold up to ten percent (10%) of the issued shares of the Company. This authority will, unless revoked or varied by the Company in General Meeting, expire at the next AGM. For further information, please refer to Part B of the Circular to Shareholders dated 30 April 2019 which is circulated together with this Annual Report.

(g) Resolution Nos. 9 & 10

The proposed Ordinary Resolution 9, if passed, will allow Mr. Leou Thiam Lai to be retained as Independent Non-Executive Director ("INED") of the Company. The Board of Directors had, vide the Nomination Committee has assessed the independence of Mr Leou, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than seventeen (17) years and recommended him to continue to act as an Independent Non-Executive Director of the Company. The justifications of the Board of Directors for recommending and supporting the resolutions for him continuing in office as Independent Non-Executive Directors are set out under the Corporate Governance Overview Statement in the Company's 2018 Annual Report.

(h) The proposed Ordinary Resolution 10, if passed, will allow Datuk Zainun Aishah binti Ahmad ("Datuk Zainun") to be retained as Independent Non-Executive Director ("INED") of the Company. The Board of Directors had, vide the Nomination Committee has assessed the independence of Datuk Zainun, who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than eleven (11) years and recommended her to continue to act as an Independent Non-Executive Director of the Company. The justifications of the Board of Directors for recommending and supporting the resolutions for her continuing in office as Independent Non-Executive Directors are set out under the Corporate Governance Overview Statement in the Company's 2018 Annual Report.

Resolution Nos. 9 & 10 if passed, will authorise Mr. Leou Thiam Lai and Datuk Zainun Aishah binti Ahmad to continue in office as Independent Non-Executive Directors of the Company until the conclusion of the next AGM of the Company.

(i) Special Resolution
Proposed Adoption of the New Constitution of the Company

In view of the substantial amount of amendments to the existing Memorandum and Articles of Association ("M&A"), the Board proposed to revoke the existing M&A in its entirety and in place thereof, adopt a new Constitution as set out in Appendix II of the Circular to shareholders dated 30 April 2019.

The proposed resolution, if passed, will streamline the Company's Constitution with the Act, recent amendments to Main Market Listing Requirements of Bursa Securities. Please refer to Part C of the Circular to Shareholders dated 30 April 2019 which is circulated together with this Annual Report.


DeGem
The Forevermark Tribute™ Collection
FOR ALL THAT YOU ARE
A diamond for each of your qualities
FOREVERMARK
A DIAMOND IS FOREVER

Corporate Information

DIRECTORS:

Dato' Hasan bin M. Taib
(Chairman)

Datuk Zainun Aishah binti Ahmad

Dato' Koh Hong Sun

Choong Kai Soon

Choong Kai Fatt

Choong Khoi Onn

Choong Kay Cheong

Leou Thiam Lai

COMPANY SECRETARY:

Andrea Huong Jia Mei
(MIA 36347)

REGISTERED OFFICE:

No. 42, 1st Floor
Jalan Maarof
Bangsar Baru
59000 Kuala Lumpur
Tel: 03-2282 3618
Fax: 03-2282 4960
Email: info@degembhd.com
Website: http://www.degembhd.com

CORPORATE AND PRINCIPAL PLACE OF BUSINESS OFFICE:

No. 42, 1st Floor
Jalan Maarof
Bangsar Baru
59000 Kuala Lumpur
Tel: 03-2282 3618
Fax: 03-2282 4960

PRINCIPAL BANKERS:

Malayan Banking Berhad
No. 66, 68 & 70
Jalan Maarof
Bangsar Baru
59000 Kuala Lumpur

Public Bank Berhad
No. 36 & 38
Jalan Maarof
Bangsar Baru
59000 Kuala Lumpur

STOCK EXCHANGE LISTING:

Bursa Malaysia Securities Berhad
Main Board-Stock Code 7119

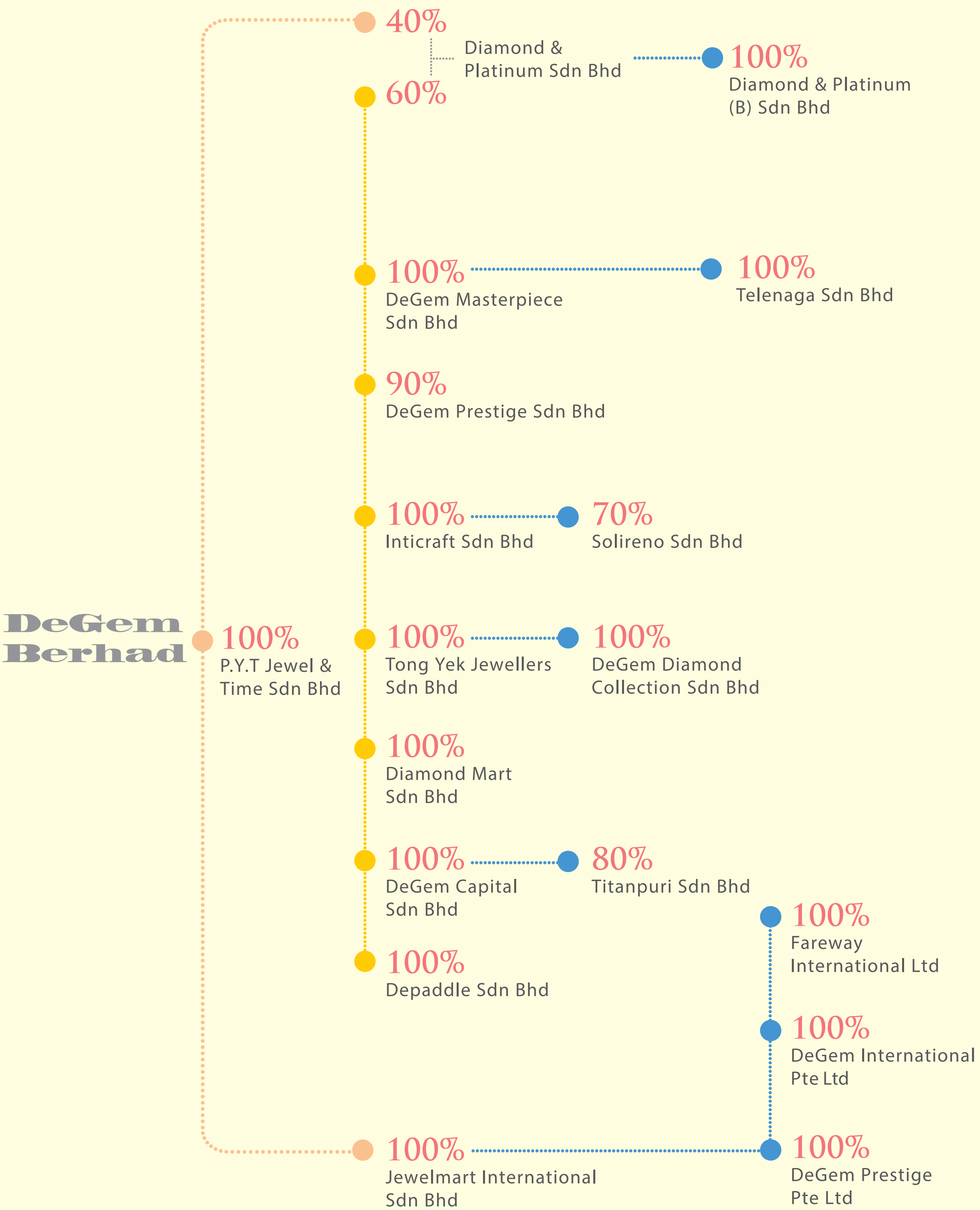
AUDITORS:

Baker Tilly Monteiro Heng PLT.
Baker Tilly MH Tower
Level 10, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur

SHARE REGISTRARS:

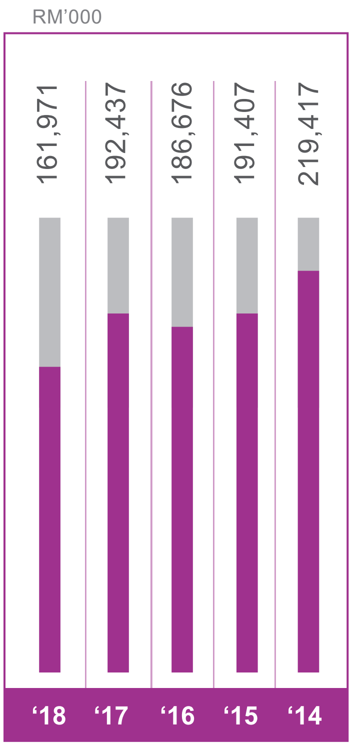
Boardroom Share Registrars Sdn. Bhd.
(formerly known as Symphony Share Registrars Sdn. Bhd.)
Level 6, Symphony House, Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya
Selangor
Tel : 03-7849 0777
Fax : 03-7841 8151/8152

Group Structure

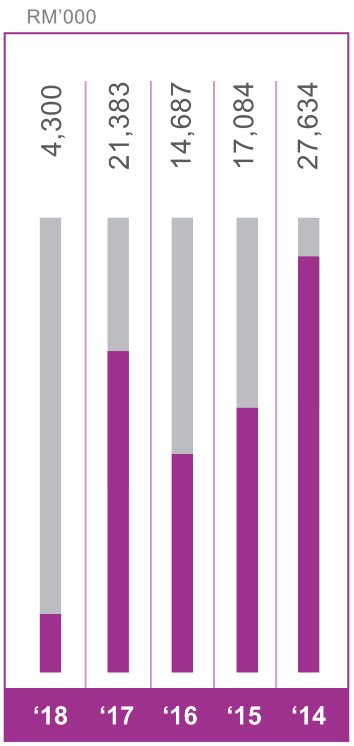


Financial Highlights for the Past 5 Years

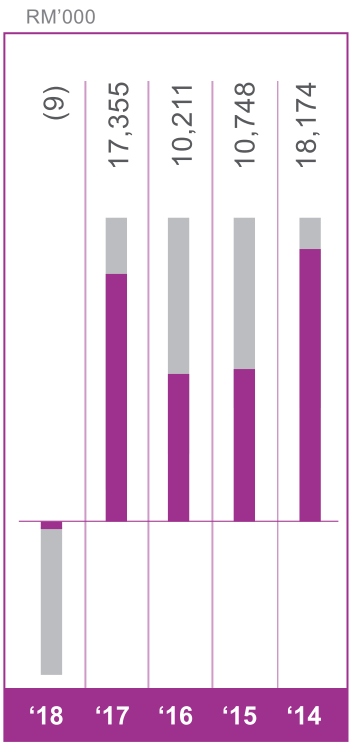
Year Ended 31 December	2018 (RM'000)	2017 (RM'000)	2016 (RM'000)	2015 (RM'000)	2014 (RM'000)
Revenue	161,971	192,437	186,676	191,407	219,417
Profit Before Tax	4,300	21,383	14,687	17,084	27,634
Taxation	(4,192)	(3,998)	(4,598)	(5,844)	(8,241)
Profit After Tax	108	17,385	10,089	11,240	19,393
Minority Interests	(117)	(30)	122	(492)	(1,219)
Profit After Tax and Attributable to Shareholders	(9)	17,355	10,211	10,748	18,174
Net Tangible Assets Per Share (Sen)	190.2	191.5	198.4	192.4	176.2



Revenue



Profit Before Tax



Profit After Tax And Attributable To Shareholders

Directors' Profile

Dato' Hasan bin M. Taib
Chairman
(Non-Executive Director)

Dato' Hasan bin M. Taib, male, aged 65, Malaysian, was appointed to the Board of Directors of Degem Berhad ("Board") on 6 April 2001. Dato' Hasan began his career in 1978 as a sales supervisor/computer coordinator for Redec Travel, which is the general sales agent for Malaysia Airline System in Jeddah, Saudi Arabia. In 1982, he left Redec Travel to start his own business in trading, property and investment in Saudi Arabia, London and Singapore. After returning to Malaysia in 1986, he formed Misbah Group of Companies, specialises in travel, property investment and development business in 1986. He obtained a degree in Science in 1997 from Pacific Western University, United States of America. He presently sits on the board of several other private limited companies. Dato' Hasan bin M. Taib does not hold any directorship in any other public corporation other than DeGem Berhad.

Mr Choong Khoi Onn
(Executive Director)

Mr Choong Khoi Onn, male, aged 62, Malaysian, was appointed to the Board on 6 April 2001. He is a member of the Remuneration Committee. He obtained a diploma in Financial Accounting from Tunku Abdul Rahman College in 1979 and started his career as an audit assistant with a local audit firm before joining the Group in 1982. He is now responsible for the financial and administrative matters of the Group. He is actively involved in all major decision making of the Group. Mr Choong Khoi Onn does not hold any directorship in any other public corporation other than DeGem Berhad.

Mr Choong Kai Fatt
(Executive Director)

Mr Choong Kai Fatt, male, aged 58, Malaysian, was appointed to the Board on 6 April 2001. He is a member of the Remuneration Committee. He has more than 30 years' experience in the jewellery business. He joined a subsidiary of the Group in 1983 and is a qualified gemologist since 1989, having studied gemology from the Gemological Institute of America. He is currently in charge of the purchasing and marketing operations of the Group. He is actively involved in all the decision making of the Group. Mr Choong Kai Fatt does not hold any directorship in any other public corporation other than DeGem Berhad.

Mr Choong Kai Soon
(Executive Director)

Mr Choong Kai Soon, male, aged 59, Malaysian, was appointed to the Board on 6 April 2001. He started his career working as a goldsmith in 1974. He is responsible for the manufacturing divisions of the Group as well as in enforcing quality control during manufacturing and on-the-job training to craftsmen in the Group. He is actively involved in all the major decision making of the Group. Mr Choong Kai Soon does not hold any directorship in any other public corporation other than DeGem Berhad.

Mr Choong Kay Cheong
(Executive Director)

Mr Choong Kay Cheong, male, aged 55, Malaysian, was appointed to the Board on 31 March 2005. He graduated with a Bachelor Degree in Engineering (Civil) Hons from Universiti Teknologi Malaysia and a Masters in Engineering (Civil) from University of Auckland, New Zealand. He first started out as a project manager in the construction industry before co-founding Diamond & Platinum Sdn. Bhd, a subsidiary of the Group in 1999. He is also actively involved in the daily operation and decision making of the Group. Mr Choong Kay Cheong does not hold any directorship in any other public corporation other than DeGem Berhad.

Mr Leou Thiam Lai
(Senior Independent Non-Executive Director)

Mr Leou Thiam Lai, male, aged 63, Malaysian, was appointed to the Board on 21 May 2001. He is the Chairman of the Audit and Risk Management Committee and also a member of the Nomination and Remuneration Committees. Mr Leou is a Chartered Accountant of the Malaysian Institute of Accountants, Fellow member of the Chartered Association of Certified Accountants (UK) and a Fellow member of the Chartered Tax Institute of Malaysia (formerly known as Malaysian Institute of Taxation). He was with Aljeffri, Siva, Heng and Monteiro from 1980 to 1981 and Baharom Hamdan from 1981 to 1984. He then set up his own Chartered Accountants firm, Leou & Associates, in 1988 and Associates PLT, in 2015. He serves as a partner of both the firm. Currently, he also sits on the boards of Sern Kou Resources Berhad, Menang Corporation (M) Berhad and EA Holdings Berhad.

He has no family relationship with any Directors or major shareholders of the Company.

Datuk Zainun Aishah binti Ahmad
(Independent Non-Executive Director)

Datuk Zainun Aishah binti Ahmad, female, aged 72, Malaysian, was appointed to the Board on 1 August, 2007. She is the Chairman of the Nomination Committee and a member of the Audit and Risk Management Committees and also the Remuneration Committees. She holds an Honours Degree in Economics from University Malaya. She began her career with Malaysia Industrial Development Authority ("MIDA"), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country as an Economist where she worked for 35 years. In her 35 years of service, she has held various key positions in MIDA as well as in some of the country's strategic council, notably her pivotal role as National Project Director in the formulation of Malaysia's First Industrial Master Plan and as a member of the Industrial Coordination Council in the implementation of the Second Industrial Master Plan. She was the Director-General of MIDA for 9 years and Deputy Director-General for 11 years. Whilst in MIDA, she was also a member of the Industrial Coordination Act Advisory Council, Defense Industry Council and National Committee on Business Competitiveness Council.

She was formerly a Director of Tenaga Nasional Berhad, Shell Refining Company (Federation of Malaya) Berhad, now known as Hengyuan Refining Company Berhad and Malayan Banking Berhad. Currently, she is the Director of Berjaya Food Berhad, British American Tobacco (Malaysia) Berhad and Boustead Holdings Berhad, all are public listed companies.

Dato' Koh Hong Sun
(Independent Non-Executive Director)

Dato' Koh Hong Sun, aged 66, Malaysian, was appointed to the Board on 01 August 2016. He is a Chairman of Remuneration Committee and a member of the Audit and Risk Management Committees and also the Nomination Committees. He graduated with a Master Degree in Strategic and Security Studies from Universiti Kebangsaan Malaysia. He had a distinguished career with the Royal Malaysia Police ("RMP") for almost 40 years, having joined RMP as a Probationary Inspector in 1971 and retired in October 2010 as the Director of Commercial Crime Investigation Department. During the period as an officer of the RMP, he had held various important command posts, including as Commandant of The Police Training Centre in Kuala Lumpur, Assistant Director NCB-Interpol, Officer-in-Charge of Brickfields Police District, Federal Traffic Chief, Deputy Chief Police Officer of Johor, Chief Police Officer of Penang and Commissioner of Police as Director of Commercial Crime Investigation Department.

Currently, he is the Chairman of QBE Insurance (Malaysia) Berhad which is a non-listed public company. He also sits on the boards of Mega First Corporation Berhad, Genting Malaysia Berhad and GLM REIT Management Sdn Bhd, the manager of Tower Real Estate Investment Trust.

He has no family relationship with any Directors or major shareholders of the Company.

Additional information:

(a) *None of the Directors has:*
   i. *been convicted of any offence other than traffic offence within the past five (5) years or was publicly sanctioned or imposed with penalty by the relevant regulatory bodies during the financial year ended 31 December 2018; and*
   ii. *any conflict of interests with DeGem*

(b) *Mr Chong Khoi Onn, Mr Choong Kai Fatt, Mr Choong Kai Soon and Mr Choong Kay Cheong are brothers.*

(c) *Please refer to Corporate Governance Overview statement on pages 29 to 40, for the Directors' meeting attendance records.*

DeGem
Fancy Sapphires Bracelet

Key Senior Management Profile

ELAINE NG AI LIAN
General Manager – HR & Admin
Female, Malaysian, Aged 49

Ms. Elaine Ng joined the Group on 5th May 2008 as General Manager of the Human Resources and Administration overseeing the full spectrum of Human Resources, Administration and IT department for the DeGem group of companies. She is responsible for the daily operations and administration of the Group. As a Senior Management staff, she is actively involved in the organizational and administrative planning and implementations of the current and new business ventures as well as the internal projects of the group.

She holds an Honours Degree in Management majoring in Human Resources Management and a minor in Economics from Universiti Sains Malaysia.

She started her career with Intel Malaysia in 1995 before proceeding her career in Human Resources with Posim Berhad. She was formerly the HR Manager for the former group of companies under PYT Jewel & Time Sdn Bhd. After which, she joined an established private higher education institution as Senior Vice President for 8 years prior to joining the Group.

JESSICA LEE SWEE CHENG
Human Resource & Administration Manager
Female, Malaysian, Aged 39

Ms Lee Swee Cheng joined Tong Yek Jewellers on 15th June 2015 as Human Resource & Administration Manager. She is responsible for the overall human resources and administration functions of the DeGem Group of Companies, as well as the editor-in-chief of the in-house newsletter, D'News. Along with a team of committee members, she has led several corporate events and overseen the corporate social responsibility activities for the Group.

She holds a Master in Business Administration majoring in Human Resources and Entrepreneurship as well as a Bachelor of Science (Honours) Degree in Electronic Commerce from Staffordshire University, UK.

Prior to joining DeGem, she has worked with a group of architectural and design companies for 12 years with a vast experience in managing the operations, human resources & administration, information technology, as well as business development for a new subsidiary under the building and construction industry. She has also worked alongside IT projects and web application development during the start of her career within the IT industry.

YAP SIEW WEI
Senior Finance Manager
Female, Malaysian, Aged 39

Ms Yap Siew Wei joined the Group on 5th June 2018 as Senior Finance Manager managing the full spectrum of Finance and Accounts department in term of financial, accounting and tax matters for the DeGem Group of Companies.

She obtained a bachelor's degree in applied accounting from Oxford Brookes University in collaboration with the Association of Chartered Certified Accountants in the UK ("ACCA") in 2002. She was admitted to fellowship of the ACCA in 2012. She is also a member of Malaysian Institute of Accountants.

Ms Yap has about 16 years of working experience in finance and accounting. From April 2003 to November 2004, she worked as an audit associate of Deloitte. From November 2004 to December 2008, she worked as an Audit Manager of Ernst & Young, where she was mainly responsible for audit planning and control. From December 2008 to December 2012, she worked as a Group Finance Manager of Hup Soon Global Corporation Limited, company principally engaged in marketing and distribution of agricultural and industrial equipment and formerly listed on Singapore Stock Exchange, where she was responsible for financial and compliance matters. From September 2013 to March 2017, she served as a Group Senior Finance Manager of PSI Incontrol Sdn Bhd, a wholly-owned subsidiary of PSI AG which is listed on Germany Stock Exchange, company providing engineering solutions for automation, control and protection systems, where she was responsible for group reporting and finance operation matters. From April 2017 to May 2018, she was the Group Financial Controller for S&P International Holding Limited, company listed on the Main Board of The Stock Exchange of Hong Kong Limited, where she was responsible for the management of financial, accounting and tax matters prior to joining DeGem.

Additional Information:

i *None of the Key Senior Management staff holds directorship in public companies and listed companies.*
ii *None of the Key Senior Management staff has any conflict of interest with the Company.*
iii *None of the Key Senior Management staff has been convicted for offences other than traffic offence within the past five (5) years or was publicly sanctioned or imposed with penalty by the relevant regulatory bodies during the financial year ended 31 December 2018.*

Other Disclosure Information

UTILISATION OF PROCEEDS

The Company did not make any corporate proposal to raise proceeds during the financial year ended 31 December 2018.

AUDIT AND NON AUDIT FEE

The total amount of audit fees and non-audit fees payable to external auditors by the Company and its subsidiaries for the financial year ended 31 December 2018 amounted to RM240,000 and RM13,000 respectively.

MATERIAL CONTRACTS

There was no material contract entered by the Company in respect of the financial year ended 31 December 2018.

DIVIDEND PAID

An interim single tier dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2018 was paid to the shareholders on 5 September 2018.

DeGem
Circle of Happiness Ring

DeGem
Arches of Opulence Earrings

The Euphoric Moment
Euforia Collection
Famed for bringing warmth, protection and enhancement of mood, when both ends of a scarf entwine, it creates an enduring, delightful knot.
Estrella Euforia honours a blissful romance that lasts an eternity: a bond so strong it can withstand the test of time. Each Estrella Diamond is tied with a delicate 18k Rose Gold scarf. It's the perfect expression of happiness in love.
So rare. So beautiful. So perfect.
estrella DIAMOND
Exclusively available at Diamond & Platinum Showrooms
Diamond & Platinum Sdn Bhd
www.diamondplatinum.com
www.estrelladiamond.com

Management Discussion And Analysis

INTRODUCTION

DeGem, an established Malaysian Jewellery retailer with more than 25 years of experience in the Jewellery business. In the decades since its founding, DeGem has built its reputation on integrity, excellent craftsmanship, professional service and benchmark for quality in the jewellery industry. DeGem’s core businesses are in manufacturing, retailing and design and distribution of fine jewellery.

RETAIL & DISTRIBUTION SEGMENT

DeGem's jewellery, which are designed and manufactured in-house, is marketed via the following channels:

1. retail under the DeGem brand,
2. retail under the Diamond & Platinum brand,
3. retail under the JEOEL brand,
4. e-commerce, and
5. oversea marketing units

DEGEM BRAND

DeGem brand caters for the mid to high-end segment of the consumer market where high brand value and loyalty is greatly emphasized. Today, DeGem is well known for its design and delicate craft, and its ability to marry the beauty of precious gems with avant-garde jewellery designs. Its range of exclusive and unique creations can satisfy the most discerning clients when it comes to high-end jewellery.

DeGem has five boutiques at exclusive retail addresses within the Klang Valley. DeGem has invested its vast experience in developing two household brands, Infinity® and Soleluna®. Infinity® has successfully become a choice brand highly sought after by couples for its engagement and wedding rings, while Soleluna® currently fulfills demand from a niche market looking for big and bold, yet affordable, jewellery. DeGem is also the sole distributor of the renowned Lazare Diamond®, ForevermarkTM and Victor Mayer jewellery in Malaysia.

In year 2011, DeGem introduced the Gold Bullion to its range of products. The Gold Bullion is highly sought after as an investment to hedge against the erosion of value of money from inflation. Investments in gold are strongly recommended to be included in a prudent investment portfolio model. Prices of the Gold Bullion are quoted marked-to-market, with buying and selling rates displayed online.

DeGem has a retail flagship outlet in Bangsar, a retail store in Ampang and 3 outlets within the Klang Valley, which are located at major shopping malls for easy accessibility by its target market.

DIAMOND & PLATINUM BRAND

Diamond & Platinum is the market leader of contemporary diamond jewellery in platinum and white gold, tailored for the young and trendy consumers. Diamond & Platinum offers its consumers a choice of high quality diamond and gemstones jewellery at affordable prices. Diamond & Platinum has 12 outlets throughout Malaysia and one in Brunei, which are located mostly at major shopping malls for easy accessibility by its target markets. The pride of Diamond & Platinum is its signature Estrella® Diamond, where eight perfectly symmetrical and identical hearts and arrows are bonded in a testament to the perfect symmetry and alignment of its facets.

In order to strengthen its rapport with customers as well as forge new bonds, both the retail units of DeGem regularly organise special events, exhibitions and road shows to showcase its jewellery and promote better awareness and appreciation of its products.

The Group was awarded the sole distributorship of the internationally renowned ForevermarkTM in Malaysia. ForevermarkTM is now retailed at all DeGem and Diamond & Platinum showrooms since year 2011.

JEOEL BRAND

Launched on 28 May 2014, JEOEL (pronounced as Jew-WELL) is the latest addition to DeGem's growing family, JEOEL aims to fulfil the fashion needs of young women for fine jewellery, with natural semi-precious gemstones such as ruby, sapphire, amethyst and topaz set in 925 sterling silver.

Helmed by young management team, JEOEL continues to uphold the legacy of fine craftsmanship that is the hallmark of DeGem Group, but also infusing elements of youth, playfulness and fun to jewellery accessories. JEOEL has 5 outlets which are located at major shopping malls within the Klang Valley.

e-COMMERCE

DeGem recognises the importance of digital platform rising with the wave of new-age and tech-friendly buyers, DeGem has developed their own e-commerce website for DeGem, Diamond & Platinum and JEOEL brand. The biggest advantage which the e-commerce website for jewellery offers is the ability to operate 24/7. This helps to gather customers irrespective of the time and location. E-commerce jewellery not only provides variety in jewellery, but it also lets them choose their jewellery at their own comfort.

OVERSEA MARKETING UNITS

DeGem undertakes sales and marketing activities for our overseas customers in Hong Kong (major hub of international jewellery business) and in Singapore where the Group participates in jewellery exhibitions.

COMPETITIVE STRENGTHS

1. Leading brands in Malaysia

As a proud jeweller with one of the largest collection of diamonds and gemstones in Malaysia, DeGem recognises the importance of strong branding in the industry and is dedicated to nurturing its retail brands, DeGem and Diamond & Platinum, which cater to distinct market segments.

2. Malaysia's most diverse portfolio of rare and precious jewels

DeGem prides itself on its diverse portfolio of rare and precious jewels, sourced from cutters around the world with whom DeGem has excellent relationships, which in turn ensures that only quality jewels are added to DeGem's inventory.

3. Skilled craftsmanship

The skill of DeGem's craftsmen is the foundation of its consistently elegant, aesthetic and unique production. To this end, DeGem places great emphasis in technical training for its production team. DeGem is also constantly keeping its finger on the pulse of the latest technological advancements and techniques employed in product quality improvement.

4. Forward looking management team

The present management, together with the founders of the Group, has successfully nurtured DeGem into an established player in the design, manufacture, distribution and retailing of diamond jewellery in the region. Under its stewardship, together with sound financial governance, the Group is supported by strong cash flows and optimum inventory level.

DeGem
Blooming Ruby Earrings

BUSINESS STRATEGY

1. Vertical integration to generate above average margin

DeGem's operations are vertically integrated, right from sourcing, designing and manufacturing to the distribution and retailing of its products. Such integration is vital to the preservation of the quality of its products, which in turn helps retain the loyalty of its customers. DeGem believes that such integration is also cost effective in ensuring not only sustainable profit margins for the Group but also competitive pricing for its customers.

2. Diversifying income sources via products diversification

JEOEL brand which focuses more on trendy and fashionable designs will continue to drive and increase its market share by enhancing and differentiating its product to its targeted younger generation market segments. In addition, JEOEL will continue to attract new customers via introduction of new products and designs and good customer service. JEOEL also fully commits on the design of jewellery, its craftsmanship and quality of its products with reasonable competitive pricing.

FINANCIAL REVIEW

REVENUE

For the financial year ended ("FYE") 31 December 2018, the Group registered a revenue of RM162.0 million as compared with a revenue of RM192.4 million recorded in the FYE 31 December 2017. The revenue from retail, design & distribution and manufacturing segment has decreased by 15.1% and 26.7% to RM154.6 million and RM7.4 million as compared to previous financial year of RM182.1 million and RM10.1 million respectively. The decrease in revenue from retail and manufacturing segment were mainly due to lower sales volume.

GROSS PROFIT

DeGem recorded a gross profit ("GP") of RM65.6 million for the FYE 31 December 2018, a decrease of RM15.8 million or 19.4% over FYE 31 December 2017 of RM81.4 million. The GP margin for the FYE 31 December 2017 has reduced to 40.5% from 42.3%. The weaker GP margin was mainly due to the products mix, higher discount given under various sale promotions during the year and fluctuation in foreign currencies, mainly United States Dollars against Ringgit Malaysia which had resulted in higher import cost.

PROFIT BEFORE TAXATION

DeGem recorded a lower profit before taxation ("PBT") to RM4.3 million for the FYE 31 December 2018 from RM21.4 million in the FYE 31 December 2017, a decrease of RM17.1 million or 79.9%. The lower PBT was mainly due to:

- lower sales and gross profit,
- expenses incurred for early termination of a retail outlet for a foreign subsidiary,
- foreign exchange loss and
- some loss making entities.

The major variances for the account for the FYE 31 December 2018 in comparison with FYE 31 December 2017 were as follows:

i) Other Income
The other income has decreased from RM4.5 million to RM2.9 million for the FYE 31 December 2018. The decrease in other income was mainly attributed from gain on disposal of foreign subsidiaries in the FYE 31 December 2017.

ii) Administrative Expenses
The Administrative expenses had increased by RM1.9 million or 3.2% from RM59.5 million in FYE 31 December 2017 to RM61.4 million for 31 December 2018. The higher administrative expenses were mainly due to expenses for the early termination of a retail outlet for a foreign subsidiary incurred during the FYE 31 December 2018. This was offset with lower administrative expenses following the disposal of an oversea subsidiary in the FYE 31 December 2017.

LIQUIDITY AND CAPITAL RESOURCES

The Group's cash position has decreased to RM28.4 million as at 31 December 2018 from RM33.3 million as at 31 December 2017. The decreases in cash position of RM4.9 million were used for:

- Repayment of loan and borrowing amounting RM1.5 million,
- purchase of property, plant and equipment amounting RM1.9 million, and
- an interim single-tier dividend of 1.0 sen per share in respect of the financial year ending 31 December 2018 was paid on 5 September 2018.

GEARING

Total Group loans, including overdrafts and finance lease creditor, decreased by of RM3.3 million to RM40.5 million as at 31 December 2018 from RM43.8 million as at 31 December 2017. The decrease was mainly due to repayment of borrowings. The net debt to equity for the Group in the FYE 31 December 2018 was at 0.14 times.

INVENTORY MANAGEMENT

The Group inventories are precious metals, semi precious and precious gemstones and jewelleries. The Group inventories as at 31 December 2018 was at RM205.5 million, a decrease of RM9.8 million as compared to the Group inventories as at 31 December 2017 of RM215.3 million.

The Group will keep reasonable quantity of jewels in the stores to meet customer demands and expectations. Sufficient selection of different designs is necessary to be offered to draw clientele to its stores. The Group buys insurance coverage on inventories to safeguard against any mishap that will result in material losses to the Group. Beside, on quarterly basis, evaluations are carried out to provide a provision for slow moving inventories.

FOREIGN CURRENCY EXPOSURES

The Group's operating results and cash flows are exposed to foreign currency exchange risks as it imports diamonds and jewellery from abroad. The Group does not use any forward contracts to hedge against its exposure to foreign currency risk as the foreign exchange exposure in transactional currencies other than functional currency of the Group are kept to an acceptable level.

However, due to the difference in functional currencies between the Malaysian entities, the Singapore, Hong Kong and Brunei entities, the net assets values of the entities in these countries are subject to foreign currency translation risks. The changes in the accounting value of net assets were taken up in foreign currency translation reserve account. At 31 December 2018, there is a credit balance of RM1.3 million in the foreign currency translation reserve account.

DIVIDEND

An interim single tier dividend of 1.0 sen per ordinary share in respect of the financial year ending 31 December 2018 was paid. The Board will evaluate the Group's profitability, long term plans and cash flows position before recommending any dividend payment.

TRENDS AND OUTLOOK

DeGem expects the retail sector to remain soft due to the economic uncertainty in the markets we operate and cautious consumer spending patterns that have been noticeable during the year.

In 2018, DeGem made further rationalisation of its overseas business operations and the Group is therefore expecting this to result in positive financial contribution from its foreign subsidiaries for the coming year.

In addition, the Group will be focusing on enhancing existing brand presence, driving its e-commerce business and at the same time exploring new business ventures and opportunities in other market segments.

Sustainability Statement

This is Degem Berhad's first Sustainability Statement in line with the amendments to the Bursa Malaysia Securities Berhad Main Market Listing Requirements relating to Sustainability Reporting in Annual Reports.

SCOPE

In this Degem's first Sustainability Statement, the report covers the financial period 1 January 2018 to 31 December 2018 and relates only to the Group's retail operations, our core business activity. This statement includes information on issues material to our business operations, as well as its impact to the environment and society.

We have also recently started tracking our performance in material areas of sustainability and will continue to refine our strategic objectives, approach and management of sustainability issues. In particular, we shall be focusing on key sustainability areas such as waste management in production and reducing our carbon footprint in the environment.

GOVERNANCE

The Board of Directors is responsible for reviewing, adopting and monitoring the overall sustainability planning and reporting for the Group. A formal structure was established in 2018 for sustainability governance as follows:

SUSTAINABILITY GOVERNANCE

Board of Directors

Senior Management

Sustainability Reporting Coordinator

The Senior Management team comprises members from senior management, human resource, finance, internal audit and admin departments of the Group.

SUSTAINABILITY APPROACH AND PRINCIPLES

DeGem endeavours to conduct its business activities in an ethical and responsible manner by embedding sustainability practices in all aspects of our retail operations to ensure the long-term growth and value creation for the Group.

The Group pursues its sustainability approach in accordance with these sustainability principles:

Economic	Environmental	Social
Continuously growing our retail operations to create long-term value for our stakeholders, furnish customers with ethically-mined, high quality products and develop mutually beneficial business relations with our suppliers to ensure continuous supply of our gemstones and precious metals.	As a responsible manufacturer and retailer, the Group sources its gemstones are procured only from legitimate and reputable suppliers who comply with quality assurance standards and ethical mining processes such as the Kimberly Process Certification Scheme.	Provide a safe, conducive and friendly working environment for our people where employees can grow their career and at the same time, give back to society through social activities that benefit the local community

STAKEHOLDER ENGAGEMENT

As set out in the Board Charter, the Board is responsible for promoting effective communications with shareholders and relevant stakeholders.

While we are committed to providing shareholders, regulators and employees with comprehensive, accurate and timely disclosure of information relating to the Group, we are looking to widen this engagement process to other parties such as customers, suppliers and the local community to gauge the importance of key sustainability matters and for them to understand our actions and direction with greater clarity.

Current methods of engagement include:

Stakeholders	Engagement Platforms
Investors & shareholders	• Quarterly reports, annual reports • Press releases, website • Annual General Meetings • Analyst briefing • Media interviews
Regulators	• Compliance with government legislative & regulatory body framework
Employees	• Employee engagement sessions • Annual gatherings
Customers	• Customer feedbacks • Social media • Face to face meetings
Suppliers	• Supplier meetings • Site visits • Communicating ethical purchasing
Communities	• Community programmes • Social activities & events

MATERIALITY ASSESSMENT

A Materiality Assessment is an exercise to gauge what are the most noteworthy economic, environmental and social issues that are material or important to the Group.

Potential material industry and operational issues relevant to the Group's retail business were:

(a) internally identified, prioritised and determined by senior management and
(b) approved by the Board

based on their importance to the Group and stakeholders. The topics are classified under the three pillars of the Global Reporting Initiatives (GRI) and Bursa Sustainability Reporting Guidelines relating to economic, environmental and social considerations (EES).

MATERIALITY ASSESSMENT (Cont'd)

The key EES issues prioritised and determined are as follows:

Economic

- Ethical Sourcing of Diamonds
- Quality of our Products
- Customer Relationship Management

Environmental

- Preserving the Physical Environment
- Factory Waste Management
- Electricity Consumption

Social - Workplace

- Health & Safety
- Talent Development
- Staff Retention
- Work Balance

Social - Community

- Giving back to Society
- Fundraising for Charity

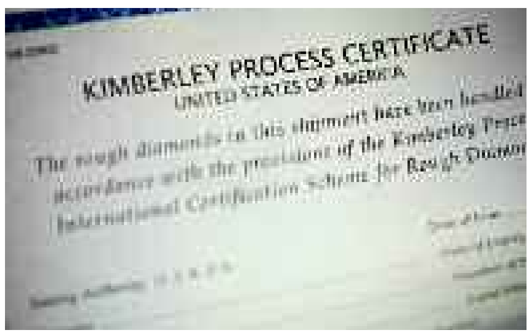
The materiality issues above that have been identified and addressed in this Sustainability Report are highlighted below while those not yet fully undertaken or requiring further analysis, setting of targets and tracking will be considered for reporting in the coming year onwards.

ECONOMIC SUSTAINABILITY

Ethical Sourcing of Diamonds

It is imperative for Degem that its sources of diamonds are only procured from legitimate and responsible suppliers – jewellery customers are discerning and would avoid buying if they knew the products came from unethical sources, employed unacceptable mining processes or used for dubious purposes. Such consumer decisions would have a major impact on the Group's business sustainability as diamonds are a key component of Degem's product offerings.

In this respect, the Group has continued to support the United Nations General Assembly (UNGA) Resolution 55/56 and requires stringent assurances from their suppliers of diamonds that their sources are certified under the Kimberly Process Certification Scheme ("KPCS").



ECONOMIC SUSTAINABILITY (Cont'd)

Ethical Sourcing of Diamonds (Cont'd)

KPCS is a process introduced by the UNGA to prevent diamond sales exploiting child labour or used to finance terrorist or illegal activities. This certification scheme aims to prohibit "blood diamonds" from entering the mainstream rough diamond market. KPCS was set up to assure consumers that by purchasing such certified diamonds conflict-free and that they were not financing war or supporting human rights abuse.

The Group holds on strongly to its principles on integrity with which the business operates. In recognition, DeGem is a member of the Diamond Exchange of Singapore and received the World Federation of Diamond Bourses Mark that represents the brands' commitment in upholding the standards and code of principles that are hallmarks of the ethical jewellery trade.

Quality of our Products

The Group only purchases natural, mined gemstones that are sold in its retail showrooms. It is of critical importance to Degem that its diamonds and other gemstones are not fake, artificial or laboratory-grown, the latter of which is a current concern in the worldwide jewellery market. The Group would not be able to sustain its business if consumers discovered the jewellery they bought were synthetic in nature as this would have a very negative impact on our reputation.

To ensure the quality of its diamonds and jewellery, the Group has acquired a number of sophisticated machines that can detect diamonds that are fake, artificial or laboratory-grown.

To augment our quality standards, the Group's jewellery manufacturing factory is certified ISO 9001:2015 quality management system employing among others, cad-cam machinery and recently-acquired design software for precise jewellery design and mounting. In addition, the Group has engaged a number of diamond & gemstone specialists in sales, inventory and merchandising departments who have undergone full gemstone training at the Gemological Institute of America (GIA) to provide expertise and quality assurance to our customers.

To ensure the Group's product items are of the highest cut quality, rigorous selection processes are applied before inventory purchasing particularly in the case of diamonds where Degem is the exclusive distributor in Malaysia for the Forevermark and Lazare diamond brands which represent a substantial proportion of our retail sales.

ECONOMIC SUSTAINABILITY (Cont'd)

Quality of our Products (Cont'd)

In the case of the Forevermark brand, procurement of their diamonds goes beyond the standard 4Cs - each stone undergoes an exacting selection procedure so rigorous that less than 1% of the world's diamonds qualify for the Forevermark brand. There are **three main criteria** in the selection process:

- The rough diamond must be of superior quality even before it is cut and polished.
- The diamond's polish must have a high degree of transparency to reflect and refract light.
- The diamond's cut must be precise enough to result in both outstanding symmetry and durability.

For Lazare, the brand gives the assurance that each Lazare diamond is cut for its maximum beauty, not just weight. Degem requires its supplier to ensure each Lazare diamond is carefully selected and then cut to the stringent ideal-cut proportions as such information is openly available to our customers who have come to expect such quality standards from the brand. **Less than 2% of Lazare Kaplan Inc. rough stone production** meets this uncompromising cut requirement.

Both Forevermark and Lazare diamonds and jewellery come with a certificate of assurance of its quality and cut proportions.

Customer Relationship Management

Sustaining the business requires the Group to maintain good public relations with our customers so that they may continue to purchase our product offerings. To this extent, Degem has developed extensive customer relationship databases which are then mined to keep in touch with all our customers to ensure the best after-sales service as well as educate them on the latest developments in the jewellery industry and our new product ranges. Examples of such communications include:

- Monthly birthday and anniversary greetings and gifting to select group of customers who have been supportive towards Degem's retail brands
- Membership reward system in respect of our Diamonds & Platinum and JEOEL business segments to give back to customers in terms of special discounts and offers
- Real-time SMS to thank customers after their purchases, and
- Development of the annual DeJewel magazine, an in-house periodical that highlights the latest trends and developments in the jewellery trade – an education tool to our customers

ENVIRONMENTAL SUSTAINABILITY

Preserving the physical environment

As a responsible manufacturer, the Group ensures that the processes in its factories do not leave an adverse impact on the environment they operate in. Wastes from factories are treated properly prior to release and where this is not possible, procedures are in place to ensure safe disposal of waste products.

In addition, there is a concerted effort by the various retail showrooms to minimise the use of electricity whenever possible with the Sustainability Reporting team involved with monitoring the kilowatt consumptions.

The Group also ensures that there is a safe and healthy environment in its premises for its employees, customers, visitors and the general public. In this respect, a fire drill was conducted in May 2018.

SOCIAL SUSTAINABILITY

The Group is very active in terms of corporate social responsibilities within the workplace and for the community outside.

WORKPLACE

Talent Management

In terms of corporate policy, Degem prioritises the promotion of staff internally whenever a vacancy arises as we believe the knowledge, skills and experience of our present workforce plays an important role in sustaining our human capital requirements.

As part of the Group's career development activities, Degem provided various training programmes during the year for its employees to enhance their knowledge and skills including advanced sales training and product knowledge & professional courses conducted either in-house or in open enrolment.

In July 2018, the Group sent a number of design, inventory and marketing staff on a learning trip to the Forevermark Design Innovation Centre in Italy for them to acquire know-how on the latest design software techniques and process that will enable Degem to provide faster and more efficient designs, an important element in retaining current and attracting new customers for business continuation.

The Group also believes in widening its talent pool and in 2018 participated in a number of career fairs involving UTAR Kampar & Sungei Long, Segi University College and Berjaya University College. Arising from these career talks, a number of retail management graduates were interned with Degem and we look forward to them joining us in due course.

Staff Retention

Apart from finding new talent, we also need to retain good people to help with the operational needs of our business which rely heavily on human resources. To help encourage staff to stay, Degem undertakes a number of activities and programmes each year and these include:

- Numerous public awards to recognise their contributions such as long service awards, meritorious awards, employee of the year awards and sales achievement awards.
- Annual appraisals for employees with discussions focusing not only on their work performances but also on career planning
- Flexible benefit scheme introduced in 2018 that allow employees to convert their annual leave balances to redeem the various reward benefits including medical, educational, computer purchase, family care, staff purchase and for reimbursement of health & fitness expenses
- Sponsorship and scholarship programmes including the Gemmological Institute of America courses in Bangkok in return for a commitment to continuing working for the Group for a minimum period
- Interest-free financial loan support repayable over a number of years
- Annual dinners and group incentive trips

Work Balance

We believe in a work-life balance for our employees where time is allocated to aspects of life outside the workplace that promote a healthy lifestyle.

Each year the Group organises team-building activities – in 2018 Degem held a 2-day high performance game changer retreat at the Avillion Admiral Cove, Port Dickson to strengthen team-building and comradeships.

In addition, during the year a number of sporting events and tournaments were undertaken to encourage a healthy disposition and social interaction. These include bowling, badminton tournaments and a movie night.

A number of board and executive directors participate in these events which help foster closer rapport between the management and staff.

COMMUNITY

Giving back to Society

The Group continues to support the Arch Home charitable organisation, enabling them to have beneficial use of its property in Old Town, Petaling Jaya in order to provide shelter to homeless children and empower marginalised mothers to generate income from their talents through micro-enterprise support and training.

In line with its social responsibilities, the Group continues to provide sponsorships and training for students of certain colleges that offer industry-related courses.

Fundraising for Charity

The Group is committed to fostering the growth of economic development as well as supporting society as part of its social responsibilities. It has made donations to various organisations and undertaken sponsorships of charitable events.

During the year, the Group partnered with one of its major suppliers, Lazare Kaplan International, on their annual "Wing of Hope" campaign to reinforce the social care and responsibility for the less fortunate people from all around the world. During the year, both Lazare and DeGem collaborated with Breast Cancer Foundation of Malaysia to raise awareness on breast cancer in the country with the result that RM45,000 was eventually raised for the foundation.

Le Jardin

Corporate Governance Overview Statement

The Board of Directors (“Board”) of DeGem Berhad (“DeGem”) is fully dedicated to continuously evaluate the Group’s Corporate Governance practices and procedures with a view to ensure the principles and recommendations in Corporate Governance as stipulated by the Malaysian Code on Corporate Governance 2017 (“MCCG”) are applied and adhered to safeguard shareholders’ investments and protect the interests of all stakeholders.

This Corporate Governance Overview Statement is prepared in compliance with Main Market Listing Requirement of Bursa Malaysia Securities Berhad’s (“MMLR”) and it is to be read together with the CG Report 2018 (“CG Report”) which is available at the corporate website at http://www.degembhd.com/degem.html

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

SECTION I: BOARD RESPONSIBILITIES

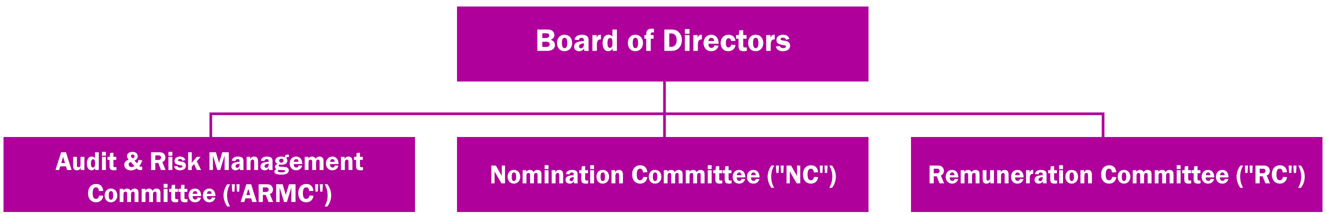
STRATEGIC AIMS, VALUES AND STANDARDS

DeGem and its subsidiaries (“the Group”) continues to be led and managed by an effective Board which ensures that the interests of the shareholders and stakeholders are protected by setting out the Group’s values and standards.

To ensure effective discharge of its functions and duties, the principle responsibilities of the Board includes promote good Corporate Governance (“CG”) culture, establishing goals, review and adopt strategic plans, identify principal risk and ensure adequacy and integrity of internal control system.

In DeGem, both the Board and the Management work cohesively to successfully formulate and implement the Group’s business strategy. The Group’s strategy setting and review is an integral part of matters reserved for the Board’s deliberation and decision.

In order to ensure orderly and effective discharge of the above functions and responsibilities, the Board has also delegated certain responsibilities to the following Board Committees.



The delegation of authority for the other Board Committees are stipulated in their respective Terms of Reference (“TOR(s)”). The TORs are reviewed periodically to ensure effective and efficient decision making in the Group.

The Board Committees also act as oversight committees, evaluating and recommending matters under their purview for the Board to consider and approve. The Board receives reports at its meetings from the Chairman of each Committee on current activities and it is the general policy of the Company that all major decisions be considered by the Board as a whole.

THE CHAIRMAN

Dato’ Hasan bin M. Taib was appointed as the Independent Non-Executive Chairman of DeGem. The Chairman has been acting as facilitator at meetings of Directors and ensure smooth functioning of the Board in the interest of good CG practice. The Chairman is responsible to ensure due execution of strategic goals, effective operations within the Group and to inform the Board in key matters pertaining to the Group.

CHAIRMAN AND CHIEF EXECUTIVE DIRECTOR

The role of the Independent Non-Executive Chairman and the Chief Executive Director ("CED"), Mr. Choong Kai Fatt are distinct and separate to ensure that there is a balance of power and authority. The Chairman of the Board is responsible for the leadership, effectiveness, conduct and governance of the Board, while the CED has overall responsibility for the day-to day management of the business and implementation of the Board's policies and decision. The CED is responsible to ensure due execution of strategic goals, effective operation within the Company, and to explain, clarify and inform the Board on matters pertaining to the Company.

QUALIFIED AND COMPETENT COMPANY SECRETARY

The Board had appointed a qualified secretary who is a member of the Malaysian Institute of Accountants and is qualified to act as Company Secretary under Section 235(2)(a) of the Companies Act, 2016.

The Company Secretary is responsible to, amongst other, update and apprise the Board on new matter statutes or directives issued by regulatory authorities, attend Board and Board Committee meetings to ensure they are properly convened and deliberations at meetings are well documented, maintain accurate records of proceedings and resolutions passed at registered office and produced for inspection (if required) and lodgments with relevant statutory and regulatory bodies.

ACCESS TO INFORMATION AND ADVICE

The Board is provided with appropriate information and comprehensive Board papers at least 7 days prior to Board meetings to enable the Directors to discharge their duties and responsibilities competently and in a well-informed manner. Management is invited to attend the Board and Committees meetings and to brief and provide explanations to the Board and Board Committees on the operations of the Group. Upon conclusion of the meeting, minutes are circulated in a timely manner.

BOARD MEETINGS

The Directors' commitment in carrying out their duties and responsibilities is affirmed by their attendance at the Board and Board Committee Meetings held during the financial year ended 31 December 2018, as reflected below: -

	Attendance At Meetings of			
	Board	ARMC	NC	RC
Dato' Hasan bin M. Taib	5/*5	N/A	N/A	N/A
Choong Kai Soon	4/*5	N/A	N/A	N/A
Choong Kai Fatt	5/*5	N/A	N/A	2/*2
Choong Khoi Onn	5/*5	#5/5	N/A	2/*2
Choong Kay Cheong	5/*5	N/A	N/A	N/A
Datuk Zainun Aishah binti Ahmad	4/*5	4/*5	2/*2	2/*2
Leou Thiam Lai	5/*5	5/*5	2/*2	2/*2
Dato' Koh Hong Sun	5/*5	5/*5	2/*2	2/*2

#Attended by invitation
****Reflects the number of meetings held during the time the Committee member held office.***

The Board is satisfied with the time commitment given by the Directors. All of the directors do not hold more than 5 directorships as required under Paragraph 15.06 of the MMLR.

BOARD CHARTER

The Board implemented its Board Charter on 19 November 2012. It sets out the roles, functions, composition, operation and processes of the Board and is to ensure all Board members acting on behalf of the Group are aware on their duties and responsibilities as Board members.

The Board Charter sets out a list of specific functions that are reserved for the Board. Key matters reserved for the Board's approval includes managing conflict of interest issues, approval of material acquisitions and disposal of assets not in the ordinary course of business, approval of corporate plans and programmes, new ventures and investments in capital project, approving the authority levels and treasury policies of the Group.

The Board will periodically review and update its Board Charter in accordance with the needs of the Group and to comply with new regulations that may have an impact on the discharge of the Board's responsibilities. The last review was approved by the Board on 28 February 2018.

The Board Charter is available at the corporate website at http ://www.degembhd.com/degem.html

CODE OF ETHICS & CONDUCT

The Board has adopted the Code of Ethics and Conduct ("Code") on 19 November 2012. The Code outlines the standards of business conduct and ethical behaviors of Directors and employees of the Group in the performance and exercise of their duties when representing the Group. The Code covers issues such as conflict of interest, maintaining confidentiality of information, insider information and securities trading, protection of assets, business records and control, compliance to laws, accepting personal gift and contribution, health and safety, sexual harassment, outside interest, fair and courteous behavior and misconduct.

The Board will periodically review and update the Code in accordance with the needs of the Group to ensure that they continue to remain relevant and appropriate. A summary of the Code is available at the corporate website at http ://www.degembhd.com/degem.html.

WHISTLE BLOWING POLICY

The Board has adopted the Whistle Blowing Policy ("WP") on 19 November 2012. The objectives of the WP are to establish rules and procedures and proper avenue for employees and stakeholders to report a genuine concern or allegation though the appropriate channel and it provides protection to the individual who report the concern or allegation.

If any employee believes reasonably and in good faith that malpractice exists in the work place, the employee should report this immediately to the line manager. However, if for any reasons the employee is reluctant to do so, then the employee should report the concerns directly to the Senior Independent Non-Executive Director, being the Director identified in the DeGem's Annual Report as one to whom concerns may be conveyed: -

Name	:	Mr. Leou Thiam Lai
E-mail	:	whistleblower@degemdiamond.com
Attention	:	Senior Independent Non-Executive Director

The Board will periodically review and update the WP in accordance with the needs of the Group to ensure that they continue to remain relevant and appropriate. A summary of the Whistle Blowing Policy is available at the corporate website at http ://www.degembhd.com/degem.html

LAZARE
Endear Bangle

SECTION II: BOARD COMPOSITION

COMPOSITION OF THE BOARD

Currently, the Board has 8 members as set out below:-

NAME	INDEPENDENT	NON-EXECUTIVE
Dato' Hasan bin M. Taib	√	√
Datuk Zainun Aishah binti Ahmad	√	√
Dato' Koh Hong Sun	√	√
Leou Thiam Lai	√	√
Choong Kai Fatt	X	X
Choong Khoi Onn	X	X
Choong Kay Cheong	X	X
Choong Kai Soon	X	X
	4 out of 8 are Independent	**4 out of 8 are Non-Executive**

The composition of the Board is well balanced and complies with the MMLR of the Bursa Malaysia Securities Berhad ("Bursa Securities") that requires at least 2 directors or 1/3 of the total number of directors, whichever is the higher, must be independent.

The Group practices a division of responsibility between the Executive and Non-Executive Directors. The Executive Directors are responsible for the overall management of the Group, to oversee operations and to coordinate the development and implementation of business and corporate strategies.

The presence of the Independent Non-Executive Directors assures an element of balance to the Board as they provide an independent view, advice and judgment to ensure that the interests of minority shareholders and the general public are given due consideration in the decision-making progress.

TENURE OF INDEPENDENT DIRECTOR

Mr. Leou Thiam Lai ("Mr. Leou") was appointed to the Board on 21 May 2001 and has served as an Independent Non-Executive Director of the Company for a cumulative term of more than seventeen (17) years. The Board of Directors had, vide the Nomination Committee has assessed the independence of Mr Leou, and had recommended him to continue to act as an Independent Non-Executive Director of the Company. Being a Chartered Accountant by profession, his knowledge, skills and experience in finance and audit would enable him to assess amongst others the financial statements, the effectiveness of the audit process and familiarity with new financial reporting standards.

TENURE OF INDEPENDENT DIRECTOR (Cont'd)

Datuk Zainun Aishah binti Ahmad ('Datuk Zainun") was appointed to the Board on 1 August 2007 and has served as an Independent Non-Executive Director of the Company for a cumulative term of more than eleven (11) years. The Board of Directors had, vide the Nomination Committee has assessed the independence of Datuk Zainun, and had recommended her to continue to act as an Independent Non-Executive Director of the Company. With 35 years of experience in various key position in MIDA previously, she would be able to provide constructive opinions and exercise independent judgement.

Based on the assessment done vide the Nomination Committee, Mr. Leou and Datuk Zainun have fulfilled the criteria under the definition of Independent Director as stated in MMLR of Bursa. Notwithstanding the recommendation of the MCCG, the Board is presently of the view that, there is no necessity to fix a maximum tenure for Directors as there are significant advantage to be gained from long service Directors who possess in depth insights to the Group's business and affairs. The ability of a Director to serve effectively as an Independent Director is very much dependent on their integrity and objectivity and had no direct connection to their tenure as an Independent Director.

DIVERSE BOARD AND SENIOR MANAGEMENT TEAM

Members of the Board comprise professionals from diverse gender, ethnicity, age, bringing with them depth and diversity of expertise, a wide range of experience and perspective in discharging their responsibilities and duties and in managing the business of the Group. The profile of each Director is presented on pages 12 to 13 of this Annual Report.

The appointment of Senior Management was also made with due regard for diversity in skills, experience, age, cultural background and gender. Their detailed particulars are provided on page 14 of this Annual Report.

GENDER DIVERISTY POLICY

The Board is supportive of gender diversity in the Board composition and Senior Management. Women candidate were sought as part of the recruitment exercise of new Director of the Company. Datuk Zainun Aishah binti Ahmad to the Board was appointed on 1 August 2007. The Board believes in and provides equal opportunities to candidates who have the skill, expertise, core competencies regardless of gender.

NOMINATION COMMITTEE

The Nomination Committee ("NC") was established on 22 April 2002. The objective of this NC is to ensure that there is a formal and transparent procedure for the appointment of new Directors to the Board and for the performance appraisal of Directors. Meetings of the NC are held as and when necessary, and at least once a year.

The members of the NC, comprising exclusively of Non-Executive Directors, a majority of whom must be independent, are as follows: -

Chairman :	Datuk Zainun Aishah Binti Ahmad	(Independent Non-Executive Director)
Member :	Leou Thiam Lai	(Senior Independent Non-Executive Director)
	Dato' Koh Hong Sun	(Independent Non-Executive Director)

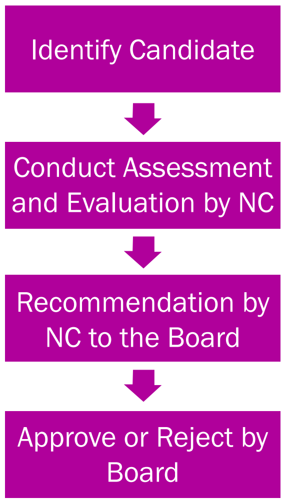
The Terms of Reference of the NC was last reviewed and updated on 28 February 2018 and is available at the corporate website at http ://www.degembhd.com/degem.html

NOMINATION COMMITTEE (Cont'd)

The NC's key responsibilities are: -

(a) Appointment of New Director

The chart below shows the procedures on appointment of new Director



The current process with regards to the appointment of new Directors to the Board are based on the recommendations of the Nomination Committee based on Directors' network and referrals from major shareholders.

The NC, in making a recommendation to the Board on the candidate for recruitment or new Board appointment, shall have regard to:

(i) Size, composition, diversity (including gender diversity) and other qualities of the existing Board, level of commitment, resources and time that the recommended candidate can contribute to the existing Board and the Group;

(ii) The candidate's skills, knowledge, expertise and experience, professionalism, integrity and, in the case of a candidate for the position of Independent Non-Executive Director, the independence criteria as set out in Paragraph 1.01 of the MMLR; and

(iii) The appropriate number of Independent Non-Executive Directors to fulfil the requirements under MMLR which requires at least 2 or 1/3 of the membership of the Board must be Independent Directors.

The final decision as to who shall be appointed as Director remains the responsibility of the full Board after considering the recommendation of the NC.

(b) Board Evaluation

The evaluation of the effectiveness of the Board, Board Committees as well as individual Directors including Independent Director was conducted in-house under the purview of the NC and facilitated by the Company Secretary.

The evaluation criteria for the Board, Board Committees and individual Directors are primarily anchored on regulatory enumerations and emerging best practices of MCCG as the method of evaluation.

The NC assesses the effectiveness of the Board and the Board Committees, as well as performance of individual Directors on an annual basis. In furtherance to these annual assessments, the NC is able to identify gaps in the Board composition and the needs to identify and select new members to the Board.

(c) Re-election and Re-appointment of Directors

The NC is responsible for making recommendation to the Board for the re-election and re-appointment of Directors who retire by rotation. This recommendation is based on formal reviews on the performance of Directors, taking into consideration the Board competency matrix and the Directors' contribution to the Board through their knowledge and commitments, experiences, level of independence and ability to act in the best interest of the Group in decision making.

Director's re-election provides an opportunity for shareholders to renew their mandate conferred to the Directors. In this respect, Article 100 of the Articles of Association of the Company ("Company's Articles") provides that all Directors shall retire by rotation once in every 3 years or at least 1/3 of the Board shall retire from office and be eligible to offer themselves for re-election at the Annual General Meeting.

Any Director appointed during the year is required under the Company's Articles to retire and seek re-election by shareholders at the following Annual General Meeting immediately after his appointment.

DIRECTORS TRAINING

The training programmes attended by the Directors during the financial year ended 31 December 2018 are as follows:

Name of Directors	Title of Programmes
Dato' Hasan bin M. Taib	Corporate Reporting: Key Disclosure Obligations of Listed Companies.
Choong Khoi Onn	Corporate Reporting: Key Disclosure Obligations of Listed Companies.
Choong Kai Fatt	Corporate Reporting: Key Disclosure Obligations of Listed Companies.
Choong Kai Soon	Corporate Reporting: Key Disclosure Obligations of Listed Companies.
Choong Kay Cheong	Corporate Reporting: Key Disclosure Obligations of Listed Companies.
Datuk Zainun Aishah binti Ahmad	(i) Remuneration Committee: Attracting and Retaining the Best Talent. (ii) Business Transformation Challenges-Shaping High Performance Organisations. (iii) Media Training.
Dato' Koh Hong Sun	(i) Corporate Reporting: Key Disclosure Obligations of Listed Companies. (ii) BNM-FIDE FORUM Dialogue: Managing Cyber Risks in Financial Institutions. (iii) Directors and Officers Liability Insurance Presentation. (iv) Training entitled "Mastering Digital Transformation". (v) Governance for the Audit Committee Members. (vi) Corporate Malaysia Summit 2018 "A Meeting Platform of Malaysian Corporate Leaders and Government Leaders". (vii) Breakfast series Companies of the Future – The Role for Boards" by Bursa Malaysia Securities Berhad. (viii) Tax Seminar – The Budget 2019.
Leou Thiam Lai	(i) Corporate Reporting: Key Disclosure Obligations of Listed Companies. (ii) 2019 Budget Seminar. (iii) Seminar Percukaian Kebangsaan 2018. (iv) Engagement Session with Public Practitioners: Strengthening the Profession Together (KL). (v) Malaysian Tax Conference 2018. (vi) National GST Conference 2018.

NC'S ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Below is a summary of the activities undertaken by the NC for the financial year ended 31 December 2018: -

(i) Reviewed and assessed the mix of skills, experience, competency and size of the Board;
(ii) Reviewed and assessed the performance, and made recommendations to the Board for its approval, regarding the Directors who are seeking for election at the upcoming AGM;
(iii) Reviewed the succession plan for the Board members;
(iv) Assessed the overall Board and the Board Committees' performance and effectiveness as a whole;
(v) Reviewed and assessed the independence of Independent Directors and their tenure of service;
(vi) Assessed Directors' training needs to ensure all Directors receive appropriate continuous training programmes; and
(vii) Reviewed and assessed the term of office and performance of the ARMC and each of its members.

SECTION III: REMUNERATION

REMUNERATION POLICY

The objective of the Group's remuneration policy is to attract and retain the Directors and Senior Management required to lead and control the Group effectively. In the case of Executive Director and Senior Management, the components of the remuneration package are linked to corporate and individual performance. For Non-Executive Directors, the level of remuneration is reflective of their experience and level of responsibilities. The Remuneration Committee ("RC") shall ensure that the level of remuneration is sufficient to attract and retain Directors of the quality required to manage the business of the Group.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee ("RC") on 22 April 2002, which comprise the following Directors, a majority of whom are Independent Non-Executive Directors: -

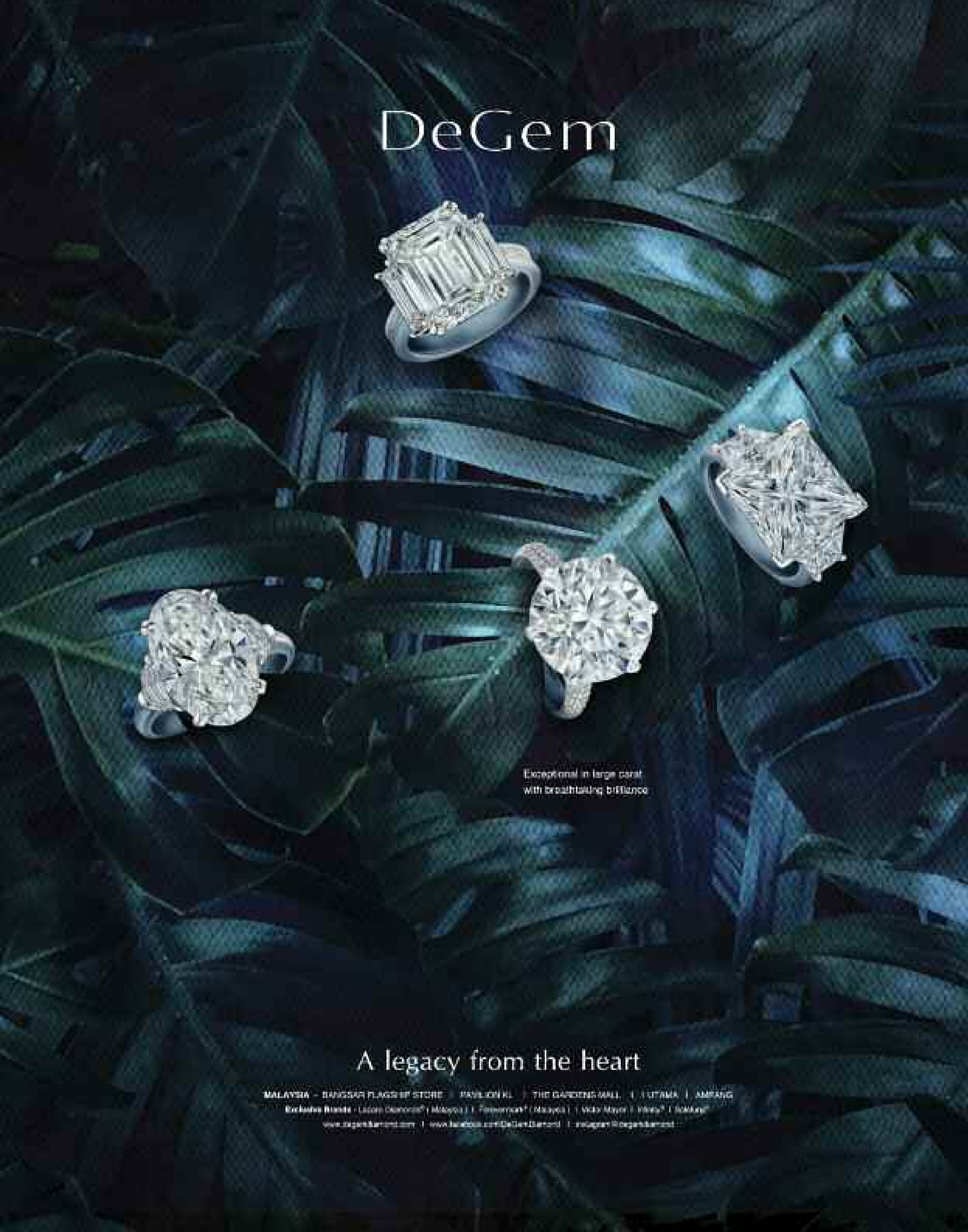
Chairman	:	Dato' Koh Hong Sun	*(Independent Non-Executive Director)*
Member	:	Datuk Zainun Aishah Binti Ahmad	*(Independent Non-Executive Director)*
Member	:	Leou Thiam Lai	*(Senior Independent Non-Executive Director)*
Member	:	Choong Kai Fatt	*(Executive Director)*
Member	:	Choong Khoi Onn	*(Executive Director)*

The RC is entrusted under its Terms of Reference to assist the Board, amongst others, to recommend to the Board the remuneration of Executive Directors and Non-Executive Directors.

Meetings of the RC are held as and when necessary, and at least once a year. The RC had held 2 meetings during the financial year ended 31 December 2018 and the meeting was attended by all the members.

Hera Wedding Bands

Jillion Collection


DeGem
Exceptional in large carat
with breathtaking brilliance
A legacy from the heart
MALAYSIA – BANGSAR FLAGSHIP STORE | PAVILION KL | THE GARDENS MALL | 1 UTAMA | AMPANG

DETAILS OF DIRECTORS REMUNERATION

The remuneration of the Directors of the Company for 2018 are as follows:

The details of the remuneration of Directors of the Company comprise the remuneration received from the Group and from the Company during the financial year ended 31 December 2018 are as follows:

Directors	# Fees (RM)	Salaries & *Other emoluments (RM)	Benefits (RM)	Total (RM)
The Company				
Executive Directors				
Choong Kai Soon	60,000	-	-	60,000
Choong Khoi Onn	60,000	-	-	60,000
Choong Kai Fatt	60,000	-	-	60,000
Choong Kay Cheong	60,000	-	-	60,000
Non-Executive Directors				
Dato' Hasan bin M. Taib	180,000	-	4,500	184,500
Datuk Zainun Aishah binti Ahmad	60,000	-	8,900	68,900
Dato' Koh Hong Sun	60,000	-	8,900	68,900
Leou Thiam Lai	60,000	-	10,900	70,900
The Group				
Executive Directors				
Choong Kai Soon	60,000	1,016,249	-	1,076,249
Choong Khoi Onn	60,000	1,039,775	-	1,099,775
Choong Kai Fatt	60,000	1,339,014	-	1,399,014
Choong Kay Cheong	60,000	691,207	-	751,207
Non-Executive Directors				
Dato' Hasan bin M. Taib	180,000	-	4,500	184,500
Datuk Zainun Aishah binti Ahmad	60,000	-	8,900	68,900
Dato' Koh Hong Sun	60,000	-	8,900	68,900
Leou Thiam Lai	60,000	-	10,900	70,900

The Directors' fees and benefits are subject to the approval by the shareholders of the Company at the forthcoming Annual General Meeting.

* Other emoluments include bonuses and the company's contributions to the Employees Provident Fund, Social Security and EIS contributions.

Remuneration of Top 3 Key Senior Management

The remuneration of the top 3 Key Senior Management Team of the Company is as follows:

Remuneration Bands	Key Senior Management
RM100,000-RM150,000	1
RM150,000-RM200,000	1
RM250,000-RM300,000	1

Details of the remuneration of each top three key senior management on a named basis are not disclosed in this report as the Board is of the view that the transparency and accountability aspects of the MCCG on disclosure of the remuneration of top three key senior management are appropriately served by the above remuneration disclosures in bands of RM50,000.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

SECTION I: AUDIT COMMITTEE

EFFECTIVE AND INDEPENDENT AUDIT & RISK MANAGEMENT COMMITTEE

The Audit Committee was renamed as the Audit & Risk Management Committee ("ARMC") with effect from 7 November 2013. The ARMC comprises 3 Independent Non- Executive Directors. The ARMC is chaired by a Senior Independent Non-Executive Director, Mr. Leou Thiam Lai. The ARMC is comprised of members who is financially literate, possess the appropriate level of expertise and experience.

The Terms of Reference of the ARMC was last reviewed and updated on 28 February 2018 and is available at the corporate website at http ://www.degembhd.com/degem.html

SECTION II: RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK
EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board is updated on the Group's internal controls system which encompasses risk management practices as well as financial, operational and compliance controls on a quarterly basis. Ongoing reviews are performed throughout the year on quarterly basis to identify, evaluate, monitor and manage significant risks affecting the business and ensure that adequate and effective controls are in place. Such continuous review processes are conducted by the Group's independent and sufficiently resourced internal audit function as well as the Company's management team. Please refer to the Statement on Risk Management and Internal Control on pages 42 to 44 of this Annual Report for further information.

EFFECTIVE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

The Group has out-sourced the Internal Audit Function to an independent consulting firm to provide an independent assessment of the adequacy, efficiency, effectiveness of the Group's internal control system. The independent Internal Auditors reports directly to the ARMC on its activities based on approved annual internal audit plan.

The principal responsibility of the internal audit department is to undertake regular and systematic review of the systems of internal control, risk management process and compliance with the Group's established policies and procedures so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively in the Group. Functionally, the internal auditor reviews and assesses the Group's systems of internal control and report to the Committee directly. Before the commencement of audit reviews for the financial year, an audit plan is produced and presented to the Committee for review and approval. This ensures that the audit direction is in line with the Committee's expectations.

Further details of the activities of the internal audit function are set out in the Audit & Risk Management Committee Report on pages 45 to 47 of this Annual Report.

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

SECTION I: COMMUNICATION WITH STAKEHOLDERS

The Board endeavors to provide timely and accurate disclosure of all material information of the Group to the shareholders and investors. Information is disseminated through various disclosures and announcements made to the Bursa Securities which includes the quarterly financial results, audited financial statements and Annual Reports. This information is also electronically published at the Bursa Securities website and Degems corporate website at http://www.bursamalaysia.com and http ://www.degembhd.com/degem.html respectively and it is accessible by public.

The Board has also designated Mr. Leou Thiam Lai as the Senior Independent Non-Executive Director to whom shareholders and investors can voice their view and concerns by email at leou@degemdiamond.com or whistleblower@degemdiamond.com, as an alternative channel of communication with shareholders.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (Cont'd)

SECTION I: COMMUNICATION WITH STAKEHOLDERS (Cont'd)

The Board adheres strictly to the Bursa Securites disclosure framework to provide investors and the public with accurate and complete information on a timely basis and not merely to meet the minimum regulatory requirements for disclosure. The Board ensures that confidential information is handled properly by authorised personnel to avoid leakage and improper use of such information. The Board is also mindful that information which is expected to be material must be announced immediately.

SECTION II: CONDUCT OF GENERAL MEETING

The Board regards the AGM and other General Meetings as an opportunity to communicate directly with shareholders and encourages attendance and participation in dialogue.

Notice of the AGM and Annual Report are sent to shareholders at least 28 days prior to the meeting. At each AGM, the Board presents the performance and progress of the Group and provides shareholders with the opportunity to raise questions pertaining to the Group. The Chairman and the Board will respond to the questions raised by the shareholders during the AGM. Each shareholder can vote in person or by appointing a proxy to attend and vote on his behalf. An explanatory note facilitating full understanding and evaluation of issues involved in the proposed resolutions accompanying each item of Special Business is included in the Notice of AGM.

COMPLIANCE STATEMENT

The Board has deliberated, reviewed and approved this Corporate Governance Overview Statement. The Board considered that the CG Overview Statement provides the information necessary to enable shareholders of the Company to evaluate how the principles and best practices as set out in the MCCG have been complied with. The Board shall remain committed in attaining the highest possible standards through the continuous adoption of the principles and best practices of the MCCG and all other applicable laws and regulations.

STATEMENT OF DIRECTOR'S RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the annual audited financial statements of the Group and of the Company are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 and the MMLR of the Bursa Securities so as to give a true and fair view of the Group's state of affairs and of the profit and loss and cash flows as at the end of the accounting period.

In preparing the audited financial statements, the Directors are satisfied that the applicable approved accounting standards in Malaysia have been complied with and reasonable and prudent judgements and estimates have been made. The audited financial statements are also prepared on a going concern basis as the Board has a reasonable expectation, after having made enquiries that the Group has adequate resources to continue its operational existence for the foreseeable future.

This statement was made in accordance with a resolution of the Board dated 5 April 2019.

Euforia Earrings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LOVE VOYAGE
A timeless flair comes with
diamonds set in white gold with blue enamel,
a unique reflection of endless mesmerizing moments.
promise
Exclusively available at Diamond & Platinum Showrooms
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Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors ("the Board") of DEGEM Berhad ("the Company") is pleased to present the following Statement on Risk Management and Internal Control of the Company and its subsidiaries ("the Group") for the financial year ended 31 December 2018. This has been prepared in accordance to Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), Malaysian Code on Corporate Governance 2017 ("MCCG 2017") and the *"Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers"*.

BOARD'S RESPONSIBILITIES

The Board of Directors affirms its overall responsibility for maintaining the Group's system of internal control, risk management and reviewing the adequacy and integrity of these systems. The Board recognizes the importance of risk management and internal audit to establish and maintain a sound system of internal control. In view of the limitations that are inherent in any system of internal control, the system is designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives and strategies. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement of financial information, loss or fraud.

The Board had received and reviewed the reports on the effectiveness of the risk management and internal control system, and is of the view that the risk management and internal control system is adequate to safeguard shareholders' interest and the Group's assets. The role of Management is to implement the Board's policies and guidelines on risks and controls, to identify and evaluate the risks faced and to operate the suitable internal control system to manage risks. The Board has received assurance from the Executive Directors that the Group's risk management and internal control system is operating adequately and effectively throughout the financial year under review and up to date of this Statement.

RISK MANAGEMENT AND RISK MANAGEMENT FRAMEWORK

As part of the Risk Management process, a Registry of Risk was adopted. The Registry of Risk is maintained to identify principal business risk and updated for on-going changes in the risk profile. The Registry of Risk summarizes risk matrix, risk control action and roles and responsibilities.

The risk identification process identifies issues arising from changes in both the external business environment and internal operating conditions. The risk measurement guidelines consist of financial and non-financial qualitative measure of risk consequences. The risk measurement guidelines are applied in allocating risk likelihood rating and risk impact rating. The risk control actions are designed and implemented based on the priority sequence.

The process of identifying, evaluating, monitoring and managing significant risks is embedded in the various work processes and procedures of the respective operational functions. Risks Factors identified are reported quarterly to the Executive Directors for further elaboration and strategic decision making.

The Board confirmed that there is an on-going process of identifying, assessing and responding to risks to achieve the objectives of the Group for the financial year under review. The Board will review the risk management process for continuous improvement as well as when new risks are identified as risk management forms an integral part of the Group's business operations to achieve profitability and sustainable growth.

The process is in place for the year under review and up to the date of issuance of the Statement on Risk Management and Internal Control.

Key Elements of Internal Control

The key elements of the Group's risk management framework include:

- Within the Group, there are organizational structures in place for each operating unit with clearly defined responsibilities and levels of authority.
- As part of the performance monitoring process, management information in the form of quarterly management accounts and reports are provided to the Board for review and approval.
- The Audit Committee reviews the quarterly and annual financial statements and results announcements and recommends to the Board for approval.
- Physical and electronic security measures for monitoring and ensuring authorized access to Group's assets and records and supplemented with daily inventory and cash counts.
- Monthly meetings are held to discuss on the Group and operating subsidiaries' operational matters and to resolve key operational related issues.
- Insurance coverage on major assets of the Group are provided to ensure that it sufficiently safeguards against any mishap that will result in material losses to the Group.
- External training are established to ensure that staff is constantly kept up-to-date with the constant technological changing environment in order to be competent in the industry in line with achieving the Group's business objectives.
- ISO 9001:2008 Quality Management System programmes in Inticraft Sdn Bhd, the manufacturing arm of the Group. Internal quality audits are conducted by the management while annual surveillance audits are conducted by a certification body to provide assurance of compliance with the ISO 9001:2008 Quality Management System.
- Internal audit reviews are carried out to identify any area of improvement, besides compliance with internal control best practices, guidelines and objectives. The internal audit also reviews and assesses risks faced by the Group and reports directly to the Audit & Risk Management Committee;
- Internal audit visits to monitor compliance with policies and procedures to assess the integrity of both financial and non-financial information provided; and
- Follow-up visits are then subsequently conducted by the internal auditor to ensure proper implementation of agreed action plans by the respective process owners.

INTERNAL AUDIT FUNCTIONS

The internal audit function is to support the Audit & Risk Management Committee in reviewing the adequacy and integrity of its system of internal control. The Group's internal audit is made up of in-house internal auditor and appointed independent consulting firm who assist the Board and the Audit & Risk Management Committee in providing an independent assessment of the adequacy, efficiency and effectiveness of the Group's internal control system. The in-house internal auditor and appointed independent consulting firm reports directly to the Audit & Risk Management Committee on quarterly basis during the Audit & Risk Management Committee Meeting.

The internal audit adopts risk-based internal audit approach in developing its audit plan, which addressed and reviewed the critical business processes, risk and internal control gaps, effectiveness and adequacy of existing state of internal control of the major subsidiaries as well as recommends possible improvements to the internal control process. The internal audit plans are reviewed and approved by the Audit & Risk Management Committee, to provide reasonable assurance that such system continues to operate satisfactorily and effectively within the Group. For the financial year ended 31 December 2018, the total costs incurred for the internal audit function is RM46,800.

Pursuant to Paragraph 9.25(1), Part A of Appendix 9C(30) of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, the Board is pleased to set out below its internal audit function.

INTERNAL AUDIT FUNCTIONS (cont'd)

The Group's independent internal control assessment is appointed to GovernAce Advisory & Solutions Sdn Bhd, a professional internal audit service provider and this ensures that the appointed consulting firm is independent as it is not involved in the operations of the Group. The appointed independent consulting firm reports directly to the Audit & Risk Management Committee. The appointed independent consulting firm is led by a management team, who are registered with professional bodies, which comprised:

(a) Director – Accountants registered with Malaysian Institute of Accountants ("MIA"), Certified Internal Auditor ("CIA"), a Chartered Member of Institute of Internal Auditors Malaysia ("CMIIA") and Certified Practising Accountant with CPA Australia ("CPA"); and

(b) Manager – Certified Internal Auditor ("CIA")

Mr. Ryan Chong, Director of GovernAce, will lead the team on the Group engagement and he is assisted by Mr. Alex Wong, Manager and Ms. Ong Ai Sim, Senior Consultant. All project management and reporting will be conducted by Mr. Ryan Chong, Mr. Alex Wong and Ms. Ong Ai Sim.

The Group's independent internal audit function plays a pivotal role in improving the effectiveness of risk management, control and governance processes of the Group's operations. This is effected through its recommendations for improvement in internal controls and consulting services on related matters, based on the International Professional Practices Framework ("IPPF") guided by Institute of Internal Auditors. Included in the audit process is also a process of follow-up of the implementation of recommendations of all issues reported to the Audit & Risk Management Committee to ensure improvement actions are taken. Based on the follow-up conducted during the year, all actions have been implemented towards improvements in the related areas.

During the financial period, a summary of activities carried out by the appointed independent internal audit function include:
- Developing the internal audit plan for year 2019
- Performed internal audit review on the following areas:

No	Name of Entity Audited	Audited Areas
1	DeGem Berhad and its subsidiaries	Internal Audit Review on Revenue Cycle (HQ)
2	DeGem Masterpiece Sdn. Bhd.	Internal Audit Review on Retail Audit on one outlet – Bangsar Baru
3	DeGem Berhad and its subsidiaries	Follow up Audit Report on Inventory Management, Revenue Cycle and Retail Audit on one outlet
4	DeGem Berhad and its subsidiaries	Internal Audit Review on Purchasing
5	DeGem Berhad and its subsidiaries	Follow up Audit Report on Inventory Management and Revenue Cycle

- Issued reports on the results of the internal audit review, identifying weaknesses with suggested recommendations for improvements to management for further action to improve the system of internal control.
- Attended Audit & Risk Management Committee's meetings to table and discuss the Internal Audit Reports.

REVIEW OF STATEMENT BY THE EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in this Annual Report and had reported to the Board that nothing has come to 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 system of internal control.

CONCLUSION

For the financial year under review and up to the date of approval of this statement, the Board is of the opinion that the risk management and internal control system currently in place is as far as practicable, adequate and effective to safeguard the Group's interests and assets. For the coming year, the Board will continually assess the adequacy and effectiveness of the Group's system of internal control and to strengthen it, as and when necessary.

Audit & Risk Management Committee Report

ESTABLISHMENT AND COMPOSITION

The Audit Committee of DeGem Berhad was established on 21 May 2001. On 7 November 2013, the Audit Committee was renamed as "Audit & Risk Management Committee" so as to provide clarity on its role and responsibilities which now include, amongst others, evaluation of the adequacy, integrity and implementation of appropriate systems for risk management and internal controls.

For the financial year ended 31 December 2018, the Audit & Risk Management Committee ("the Committee" or "ARMC") comprises the following 3 Directors:-

Chairman	:	Mr. Leou Thiam Lai (Senior Independent Non-Executive Director)
Member	:	Datuk Zainun Aishah binti Ahmad (Independent Non-Executive Director)
	:	Dato' Koh Hong Sun (Independent Non-Executive Director)

COMMITTEE MEETINGS

The Committee met five (5) times during the financial year ended 31 December 2018. The details of Committee meetings held and attended by the ARMC during the financial year are as follows:-

Name of Member	**No of Committee Meetings Attended/Held**
Chairman:	
Leou Thiam Lai *(Senior Independent Non-Executive Director)*	5/5
Members:	
Datuk Zainun Aishah binti Ahmad *(Independent Non-Executive Director)*	4/5
Dato' Koh Hong Sun (Independent Non-Executive Director)	5/5

SUMMARY OF ACTIVITIES OF THE ARMC DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

During the financial year ended 31 December 2018, the activities of the Committee included the following: -

FINANCIAL REPORTING

(a) Reviewed the unaudited quarterly financial results before recommending to the Board of Directors ("Board") for approval to release to Bursa Malaysia Securities Berhad ("Bursa Securities") accordingly;

(b) Reviewed any related party transactions and conflict of interest situations that may arise within the Group;

(c) Reviewed the audited financial statements for the financial year ended 31 December 2018;

(d) Reviewed the ARMC Report, Corporate Governance Overview Statement, Corporate Governance Report 2018 and Statement on Risk Management and Internal Control to ensure compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and recommend to the Board for inclusion in the Annual Report 2018;

(e) Considered the impact of any unusual transactions including related party transactions;

(f) Reviewed the Circular to Shareholders on the Proposed Renewal of Share Buy-Back Authority and recommended the same to the Board for approval;

(g) Reviewed the Circular to Shareholders in relation to the Proposed Adoption of the New Constitution of the Company and recommended the same to the Board for approval;

(h) Reviewed the Circular to Shareholders on the Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transaction ("RRPT") of a revenue or trading nature and recommended the same to the Board for approval; and

(i) Reviewed the status of the recurrent related party transactions ("RRPT") as disclosed in note 2.7(d) of Part A of the Circular to Shareholders on 30 April 2018.

EXTERNAL AUDIT

(a) During the financial year ended 31 December 2018, the ARMC reviewed and endorsed the External Auditor's, Baker Tilly Monteiro Heng PLT ("Baker Tilly") presentation which are as follows: -

    (i) Audit Plan 2018 which outlined its engagement team, audit approach, audit timeline, the areas of audit emphasis, and their focus on Key Audit Matters with reference to the International Standard on Auditing 701; and

    (ii) Audit Review Memorandum for the financial year ended 31 December 2018 which highlights the Key Audit Matters and Significant Audit Findings identified during the audit, matters for control improvements, significant outstanding matters;

(b) Scrutinised potential Key Audit Matters raised by the External Auditors and ensured that adequate work had been done to support the audit conclusions and overall impact on the financial statements.

    The Key Audit Matter vetted by the ARMC was on inventory valuation.

(c) The ARMC had undertaken an annual assessment of the suitability and independence of the External Auditor and based on the results of the assessment, the ARMC was satisfied with the suitability of Baker Tilly to be reappointed as External Auditors of the Company and had made recommendation to the Board for the External Auditors re-appointment;

EXTERNAL AUDIT (Cont'd)

(d) Discussed with the External Auditors on updates in relation to new or proposed changes in accounting standards and regulatory requirements and considered the implications to the financial statements presentation and disclosure arising from the adoption of the new Financial Reporting Standards;

(e) Met with the External Auditors once during the financial year ended 31 December 2018 without the presence of Executive Directors and management to discuss audit findings, assistance given by the management to the External Auditors or any observations noted during the audit process; and

(f) Considered the audit fees payable to the External Auditors and recommended to the Board for approval.

INTERNAL AUDIT FUNCTION

The Group's internal audit function is made up of in-house internal auditor and appointed an independent consulting firm, Governance & Advisory Solutions Sdn. Bhd to provide an independent assessment of the adequacy, efficiency, effectiveness of the Group's internal control system. The independent Internal Auditors ("IA") assists the ARMC in the discharge of its duties and responsibilities.

The principal responsibility of the internal audit department is to undertake regular and systematic review of the systems of internal control, risk management process and compliance with the Group's established policies and procedures so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively in the Group. Functionally, the IA reviews and assesses the Group's systems of internal control and report to the Committee directly. Before the commencement of audit reviews for the financial year, an audit plan is produced and presented to the Committee for review and approval. This ensures that the audit direction is in line with the Committee's expectations.

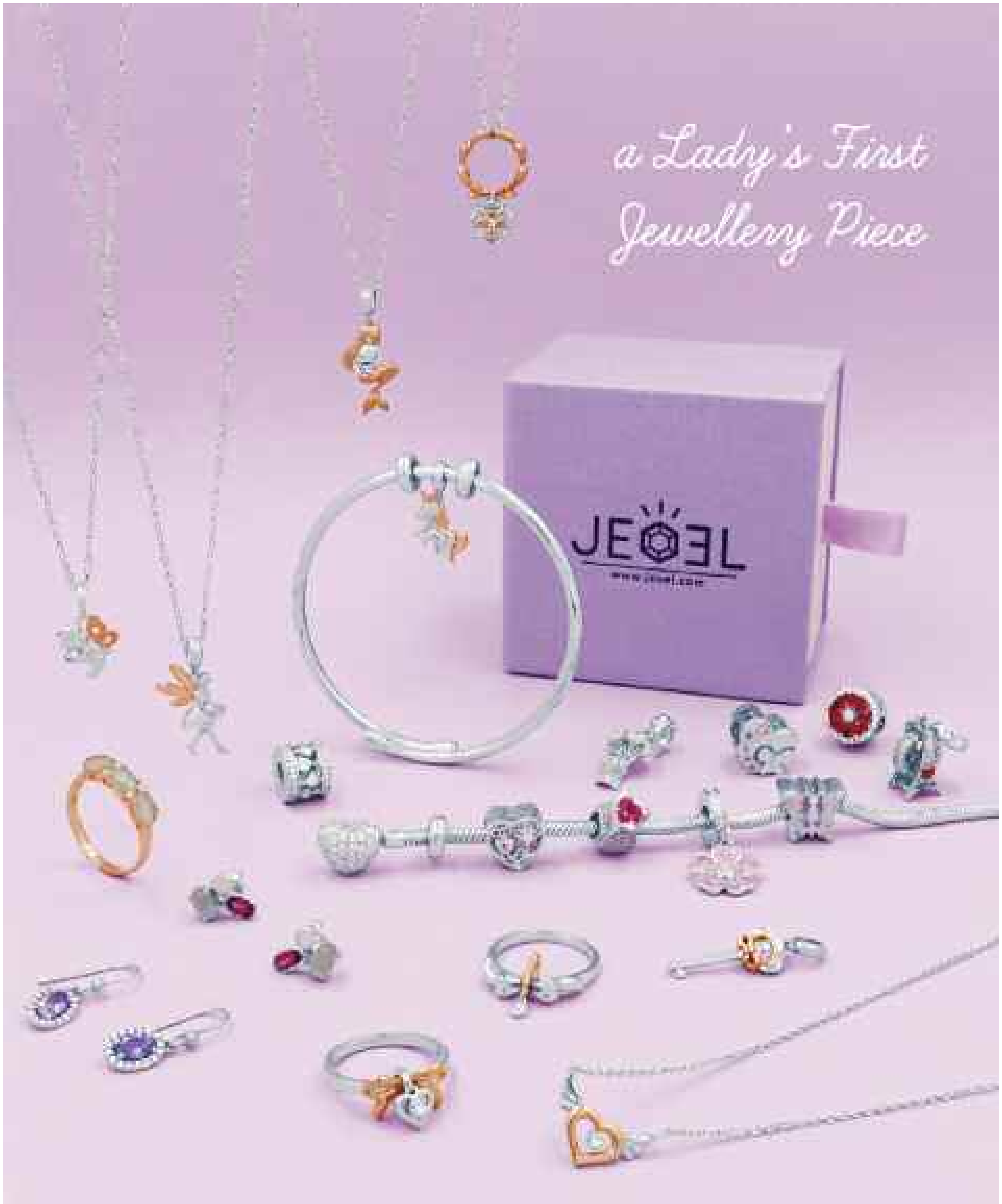
Throughout the year, the IA conducted the followings:-

No	Name of Entity Audited	Audited Areas
1	DeGem Berhad and its subsidiaries	Internal Audit Review on Revenue Cycle (HQ)
2	DeGem Masterpiece Sdn. Bhd.	Internal Audit Review on Retail Audit on one outlet – Bangsar Baru
3	DeGem Berhad and its subsidiaries	Follow up Audit Report on Inventory Management, Revenue Cycle and Retail Audit on one outlet
4	DeGem Berhad and its subsidiaries	Internal Audit Review on Purchasing
5	DeGem Berhad and its subsidiaries	Follow up Audit Report on Inventory Management and Revenue Cycle

The final reports containing the audit findings and recommendations together with responses by management were circulated to all members of the Committee. Areas of improvement identified were communicated to the management for further action. All internal audit reports were reviewed by the Committee and discussed at Committee Meetings and recommendations were duly acted upon by the management. Follow-up reviews would subsequently be performed to ascertain the extent of implementation of the recommended corrective action for improvements.

The ARMC met with the IA once during the financial year ended 31 December 2018 in the absence of the Executive Directors and management to discuss audit issues and reservations arising from the internal audit cycles.

The cost incurred for the internal audit for action for the financial year ended 31 December 2018 was RM46,800.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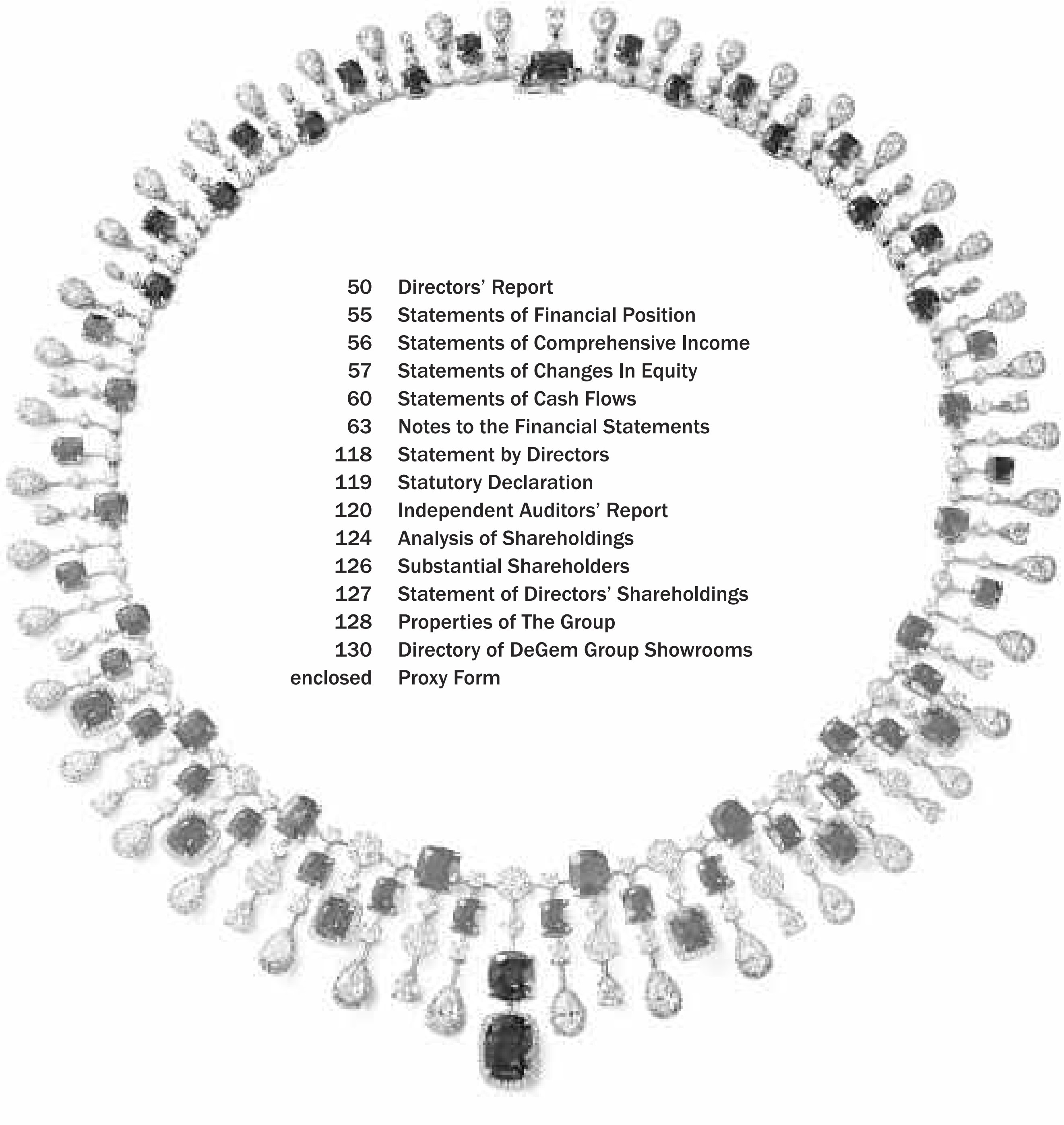
Financial Statements



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Directors' Report

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

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and the provision of management services. The principal activities of the subsidiaries are set out in Note 7 to the financial statements.

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

RESULTS

	Group RM'000	Company RM'000
Profit for the financial year, net of tax	108	15
Attributable to:		
Owners of the Company	(9)	15
Non-controlling interests	117	-
	108	15

DIVIDENDS

The amount of dividend declared and paid by the Company since the end of the previous financial year were as follows:

	RM'000
Single tier interim dividend of 1 sen per ordinary share for the financial year ended 31 December 2018, paid on 5 September 2018	1,308

The directors do not recommend the payment of final dividend in respect of the financial year ended 31 December 2018.

RESERVES OR PROVISIONS

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

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that there were no known bad debts and that no allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render it necessary to write off any bad debts or to make any allowance for doubtful debts in the financial statements of the Group and of the Company.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

In the opinion of the directors, no contingent or other liability of the Group or of the Company has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF MATERIAL AND UNUSUAL NATURE

In the opinion of the directors,

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

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

ISSUE OF SHARES OR DEBENTURES

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

TREASURY SHARES

Treasury shares relate to ordinary shares of the Company that are repurchased and held by the Company in accordance with the requirement of Section 127 of the Companies Act 2016 in Malaysia.

There was no repurchase of the Company's issued ordinary shares, nor any resale, cancellation or distribution of treasury shares during the financial year.

As at 31 December 2018, the Company held 3,167,900 treasury shares out of its 134,000,000 issued and paid-up ordinary shares. Such treasury shares are held at a carrying amount of RM3,201,991. Further details are disclosed in Note 14 to the financial statements.

DIRECTORS

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

Dato' Hasan bin M.Taib*
Datuk Zainun Aishah binti Ahmad
Choong Kai Soon*
Choong Kai Fatt*
Choong Khoi Onn*
Choong Kay Cheong*
Leou Thiam Lai
Dato' Koh Hong Sun

*Directors of the Company and certain subsidiaries

Other than as stated above, the names of the directors of the subsidiaries of the Company in office during the financial year and during the period from the end of the financial year to the date of the report are:

Choong Sin Cheong
Tg. Putri Arafiah Bte Almarhum Sultan Salahuddin Abd Aziz Shah
Warinat Lim
Sa'adatul Hijrah Binti Haji Mohd Yassin
Saw Fook Fah
Ng Geok Lan
Han Hua Sou

DIRECTORS' INTERESTS

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

Interest in the Company

	Number of ordinary shares			
	At 1 January 2018	**Bought**	**Sold**	**At 31 December 2018**
Direct interests:				
Dato' Hasan bin M. Taib	3,000,000	-	-	3,000,000
Choong Khoi Onn	760,000	-	-	760,000
Choong Kay Cheong	2,508,000	-	-	2,508,000

DIRECTORS' INTERESTS (cont'd)

Interest in the Company (cont'd)

	Number of ordinary shares			
	At 1 January 2018	**Bought**	**Sold**	**At 31 December 2018**
Indirect interests:				
Choong Kai Soon*#	76,243,234	1,124,000	-	77,367,234
Choong Kai Fatt*	75,968,634	1,000,000	-	76,968,634
Choong Khoi Onn*	75,968,634	1,000,000	-	76,968,634
Choong Kay Cheong*	75,968,634	1,000,000	-	76,968,634

* Shares held through company in which the director has substantial financial interest.
\# Shares held through spouse.

By virtue of their interest in the ordinary shares of the Company and pursuant to Section 8 of the Companies Act 2016 in Malaysia, Choong Kai Soon, Choong Kai Fatt, Choong Khoi Onn and Choong Kay Cheong are deemed to have interests in the ordinary shares of the subsidiaries to the extent that the Company has an interest.

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

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable, by the directors as disclosed in Note 21 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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

INDEMNITY TO DIRECTORS AND OFFICERS

During the financial year, the total amount of indemnity coverage and insurance premium paid for the directors of the Company were RM5,000,000 and RM13,500 per annum respectively.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 7 to the financial statements.

INTERESTS IN HOLDING COMPANY AND OTHER RELATED CORPORATIONS

Other than as disclosed elsewhere in this report, the Company does not have any interests in shares in the holding company and its other related corporations during the financial year.

ULTIMATE HOLDING COMPANY

The directors regard Legion Master Sdn. Bhd., a company incorporated in Malaysia, as the ultimate holding company of the Company.

AUDITORS' REMUNERATION

The details of the auditors' remuneration are disclosed in Note 21 to the financial statements.

INDEMNITY TO AUDITORS

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

AUDITORS

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

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

....

CHOONG KAI FATT
Director

....

CHOONG KHOI ONN
Director

Date: 5 April 2019

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	5	29,047	29,562	427	-
Investment properties	6	29,126	29,493	-	-
Investment in subsidiaries	7	-	-	54,400	54,400
Deferred tax assets	8	634	1,798	-	-
Total non-current assets		58,807	60,853	54,827	54,400
Current assets					
Inventories	9	205,510	215,296	-	-
Trade and other receivables	10	14,039	35,477	19,974	22,375
Current tax assets		2,066	1,898	102	-
Other investment	11	5,396	2,501	1,801	-
Cash and cash equivalents	12	28,394	33,263	654	1,585
Total current assets		255,405	288,435	22,531	23,960
TOTAL ASSETS		314,212	349,288	77,358	78,360
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	13	77,435	77,435	77,435	77,435
Treasury shares	14	(3,202)	(3,202)	(3,202)	(3,202)
Other reserves	15	3,774	4,211	-	-
Retained earnings		169,532	170,849	2,658	3,951
		247,539	249,293	76,891	78,184
Non-controlling interests		1,330	1,213	-	-
TOTAL EQUITY		248,869	250,506	76,891	78,184
Non-current liabilities					
Deferred tax liabilities	8	605	667	3	-
Loans and borrowings	16	36,619	37,131	266	-
Total non-current liabilities		37,224	37,798	269	-
Current liabilities					
Trade and other payables	17	22,287	52,354	122	117
Contract liability	18	1,631	1,440	-	-
Current tax liabilities		291	501	-	59
Loans and borrowings	16	3,910	6,689	76	-
Total current liabilities		28,119	60,984	198	176
TOTAL LIABILITIES		65,343	98,782	467	176
TOTAL EQUITY AND LIABILITIES		314,212	349,288	77,358	78,360

The accompanying notes form an integral part of these financial statements.

Statements of 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	19	161,971	192,437	1,156	3,275
Cost of sales		(96,385)	(111,069)	-	-
Gross profit		65,586	81,368	1,156	3,275
Other income	20	2,873	4,546	2	101
Administrative expenses		(61,405)	(59,534)	(1,045)	(787)
Net impairment losses of financial assets		24	771	-	1,507
Other expenses		(1,292)	(4,098)	(26)	(21)
		(62,673)	(62,861)	(1,071)	699
Operating profit		5,786	23,053	87	4,075
Finance costs		(1,486)	(1,670)	(4)	(87)
Profit before tax	21	4,300	21,383	83	3,988
Income tax expense	22	(4,192)	(3,998)	(68)	(260)
Profit for the financial year		108	17,385	15	3,728
Other comprehensive loss, net of tax					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations		(437)	(12,218)	-	-
Reclassification adjustment for the cumulative exchange gain on translation of financial statements of foreign operations transferred to profit or loss upon disposal of subsidiaries		-	(5,035)	-	-
Other comprehensive loss for the financial year		(437)	(17,253)	-	-
Total comprehensive (loss)/income for the financial year		(329)	132	15	3,728
(Loss)/Profit attributable to:					
Owners of the Company		(9)	17,355	15	3,728
Non-controlling interests		117	30	-	-
		108	17,385	15	3,728
Total comprehensive (loss)/income attributable to:					
Owners of the Company		(446)	5,518	15	3,728
Non-controlling interests		117	(5,386)	-	-
		(329)	132	15	3,728
(Loss)/Earnings per share attributable to owners of the Company:					
- Basic and diluted (loss)/earnings per share(sen)	23	(0.01)	13.27		

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2018

Group	Note	Share capital RM'000	Other reserve RM'000	Exchange reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		/------Attributable to owners of the Company------/							
At 1 January 2018		77,435	2,500	1,711	(3,202)	170,849	249,293	1,213	250,506
Total comprehensive (loss)/ income for the financial year									
Profit for the financial year		-	-	-	-	(9)	(9)	117	108
Other comprehensive loss for the financial year									
Foreign currency translation differences, representing total other comprehensive loss for the financial year		-	-	(437)	-	-	(437)	-	(437)
Total comprehensive (loss)/income for the financial year		-	-	(437)	-	(9)	(446)	117	(329)
Transactions with owners									
Dividends paid on shares, representing total transactions with owners	24	-	-	-	-	(1,308)	(1,308)	-	(1,308)
At 31 December 2018		77,435	2,500	1,274	(3,202)	169,532	247,539	1,330	248,869

Group	Note	Share capital RM'000	Share premium RM'000	Other reserve RM'000	Exchange reserve RM'000	Treasury shares RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
		/------Attributable to owners of the Company------/								
At 1 January 2017		67,000	10,435	2,500	13,548	(3,194)	155,457	245,746	13,906	259,652
Total other comprehensive (loss)/income for the financial year										
Profit for the financial year		-	-	-	-	-	17,355	17,355	30	17,385
Other comprehensive loss for the financial year										
Foreign currency translation differences		-	-	-	(8,518)	-	-	(8,518)	(3,700)	(12,218)
Reclassified to profit or loss upon disposal and deregistration of subsidiaries		-	-	-	(3,319)	-	-	(3,319)	(1,716)	(5,035)
Total other comprehensive loss for the financial year		-	-	-	(11,837)	-	-	(11,837)	(5,416)	(17,253)
Total comprehensive (loss)/income for the financial year		-	-	-	(11,837)	-	17,355	5,518	(5,386)	132
Transactions with owners										
Share repurchased		-	-	-	-	(8)	-	(8)	-	(8)
Dividends paid on shares	24	-	-	-	-	-	(1,963)	(1,963)	(7,307)	(9,270)
Total transactions with owners		-	-	-	-	(8)	(1,963)	(1,971)	(7,307)	(9,278)
Transition to no-par value regime		10,435	(10,435)	-	-	-	-	-	-	-
At 31 December 2017		77,435	-	2,500	1,711	(3,202)	170,849	249,293	1,213	250,506

Company	Note	/---Attributable to owners of the Company--- Share capital RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2018		77,435	(3,202)	3,951	78,184
Total comprehensive income for the financial year					
Profit for the financial year, representing total comprehensive income		-	-	15	15
Transactions with owners					
Dividends paid on shares, representing total transactions with owners	24	-	-	(1,308)	(1,308)
At 31 December 2018		77,435	(3,202)	2,658	76,891

Company	Note	/---Attributable to owners of the Company--- Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017		67,000	10,435	(3,194)	2,186	76,427
Total comprehensive income for the financial year						
Profit for the financial year, representing total comprehensive income		-	-	-	3,728	3,728
Transactions with owners						
Share repurchased		-	-	(8)	-	(8)
Dividends paid on shares	24	-	-	-	(1,963)	(1,963)
Total transactions with owners		-	-	(8)	(1,963)	(1,971)
Transition to no-par value regime		10,435	(10,435)	-	-	-
At 31 December 2017		77,435	-	(3,202)	3,951	78,184

The accompanying notes form an integral part of these financial statements.

Statements of Cash Flows

for the financial year ended 31 December 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from operating activities				
Profit before tax	4,300	21,383	83	3,988
Adjustments for:				
Bad debt written off	-	1,370	-	-
Deposits written off	-	4	-	-
Depreciation of investment properties	462	359	-	-
Depreciation of property, plant and equipment	2,986	3,071	56	-
Dividend income	-	-	-	(2,090)
Finance costs	1,486	1,670	4	87
Gain on disposal of property, plant and equipment	(334)	(270)	-	-
Gain on disposal of subsidiaries	-	(1,761)	-	-
Goodwill written off	-	87	-	-
Interest income	(197)	(235)	-	-
Inventories written down	875	512	-	-
Loss on deregistration of a subsidiary	-	314	-	-
Property, plant and equipment written off	241	116	-	-
Reversal of impairment losses on:				
- amount owing by a subsidiary	-	-	-	(1,507)
- investment in a subsidiary	-	-	-	(100)
- trade receivables	(24)	(771)	-	-
Reversal of inventories written down	-	(17)	-	-
Unrealised loss/(gain) on foreign exchange	176	(618)	-	-
Operating profit before changes in working capital	9,971	25,214	143	378
Changes in working capital:				
Inventories	8,911	(12,697)	-	-
Trade and other receivables	21,694	(21,389)	12	(11)
Trade and other payables	(30,285)	31,714	4	(69)
Net cash generated from operations	10,291	22,842	159	298
Income tax paid	(3,604)	(5,878)	(225)	(246)
Income tax refunded	114	217	-	-
Interest received	197	235	-	-
Interest paid	(132)	(282)	(4)	(87)
Net cash generated from/(used in) operating activities	6,866	17,134	(70)	(35)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from investing activities				
Cash inflow from deregistration of a subsidiary	-	234	-	-
Dividend received	-	-	-	2,090
Placement of other investments	(2,895)	(2,501)	(1,801)	-
Purchase of property, plant and equipment	(1,909)	(3,298)	(104)	-
Proceeds from disposal of property, plant and equipment	781	356	-	-
Proceeds from disposal of subsidiaries, net of cash disposed	-	3,813	-	-
(Placement)/Withdrawal of fixed deposits	(641)	2,300	-	-
Net cash generated (used in)/ from investing activities	(4,664)	904	(1,905)	2,090
Cash flows from financing activities				
Dividend paid				
- Owners of the Company	(1,308)	(1,963)	(1,308)	(1,963)
- Non-controlling interests	-	(7,307)	-	-
Interest paid	(1,354)	(1,388)	-	-
Repurchased of treasury shares	-	(8)	-	(8)
Repayment of term loans	(816)	(3,007)	-	-
Repayment of revolving credits	-	(3,000)	-	(3,000)
Advances from/(Repayment to) directors	17	(1,032)	-	-
Repayments from subsidiaries	-	-	2,390	3,978
Repayments of finance lease liabilities	(678)	(551)	(38)	-
Net cash (used in)/ from financing activities	(4,139)	(18,256)	1,044	(993)
Net (decrease)/increase in cash and cash equivalents	(1,937)	(218)	(931)	1,062
Cash and cash equivalents at the beginning of the financial year	28,865	44,453	1,585	523
Effects of exchange rate changes on cash and cash equivalents	(394)	(15,370)	-	-
Cash and cash equivalents at the end of the financial year (Note 12)	26,534	28,865	654	1,585

a) Reconciliation of liabilities arising from financing activities:

	1 January 2018 RM'000	Cash flows RM'000	Acquisition /Disposal RM'000	31 December 2018 RM'000
Group				
Finance lease liabilities	783	(678)	1,382	1,487
Term loans	39,210	(816)	-	38,394
	39,993	(1,494)	1,382	39,881
Company				
Amount owing by subsidiaries	22,348	(2,390)	-	19,958

	1 January 2017 RM'000	Cash flows RM'000	Acquisition /Disposal RM'000	31 December 2017 RM'000
Group				
Finance lease liabilities	693	(551)	641	783
Revolving credits	3,000	(3,000)	-	-
Term loans	42,835	(3,007)	(618)	39,210
	46,528	(6,558)	23	39,993
Company				
Revolving credits	3,000	(3,000)	-	-
Amount owing by subsidiaries	26,326	(3,978)	-	22,348
	29,326	(6,978)	-	22,348

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

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

The registered office and principal place of business of the Company is located at No. 42, 1st Floor, Jalan Maarof, Bangsar Baru, 59100 Kuala Lumpur, Malaysia.

The ultimate holding company of the Company is Legion Master Sdn. Bhd., a company incorporated in Malaysia.

The principal activities of the Company are investment holding and provision of management services. The principal activities of its subsidiaries are disclosed in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 5 April 2019.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int")

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

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

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

MFRS 9 Financial Instruments

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

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

MFRS 9 Financial Instruments (cont'd)

Key requirements of MFRS 9:

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

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

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

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

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

Impact of the adoption of MFRS 9

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

(i) Classification and measurement

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

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

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

MFRS 9 Financial Instruments (cont'd)

Impact of the adoption of MFRS 9 (cont'd)

(i) Classification and measurement *(cont'd)*

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

		MFRS 9 measurement category	
MFRS 139 measurement category	**RM'000**	**Fair value through profit or loss RM'000**	**Amortised cost RM'000**
Financial assets			
Group			
Loans and receivables			
Trade and other receivables, excluding prepayment and GST refundable	30,941	-	30,941
Cash and cash equivalents	33,263	-	33,263
Held for trading			
Other investment	2,501	2,501	-
	66,705	2,501	64,204
Company			
Loans and receivables			
Trade and other receivables, excluding prepayment and GST refundable	22,364	-	22,364
Cash and cash equivalents	1,585	-	1,585
	23,949	-	23,949
Financial liabilities			
Group			
Other financial liabilities			
Loans and borrowings	43,820	-	43,820
Trade and other payables, excluding GST payable	52,289	-	52,289
	96,109	-	96,109
Company			
Other financial liabilities			
Trade and other payables, excluding GST payable	117	-	117

2. BASIS OF PREPARATION (cont'd)

2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int") (cont'd)

MFRS 9 Financial Instruments (cont'd)

Impact of the adoption of MFRS 9 (cont'd)

(ii) Impairment

In previous financial years, trade and other receivables are impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the receivables (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the receivables ("incurred loss model"). Upon adoption of MFRS 9, the Group and the Company are recording expected credit losses on all its trade and other receivables, either on a 12-month or lifetime basis. Based on assessment, the Group and the Company did not recognise additional impairment losses on its trade and other receivables at the date of initial application arising from application of simplified approach and general approach respectively to reconcile the lifetime expected credit losses.

MFRS 15 Revenue from Contracts with Customers

The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

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

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

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

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

Impact of the adoption of MFRS 15

The Group and the Company have applied MFRS 15 in accordance with the modified transitional approach, which involves not restating periods prior with the expedient in MFRS 15: C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

In accordance with MFRS 15, the Group and the Company recognise revenue when a performance obligation is satisfied, which is when 'control' of provision of services underlying the particular performance obligation is transferred to the customer and also accounted for any variable consideration element against transaction price.

The adoption of MFRS 15 did not have a material impact on the financial statements of the Group and of the Company.

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective

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

		Effective for financial periods beginning on or after
New MFRSs		
MFRS 16	Leases	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	1 January 2021#
MFRS 2	Share-based Payment	1 January 2020*
MFRS 3	Business Combinations	1 January 2019/ 1 January 2020*
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2021#
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7	Financial Instruments: Disclosures	1 January 2021#
MFRS 9	Financial Instruments	1 January 2019
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 11	Joint Arrangements	1 January 2019
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 15	Revenue from Contracts with Customers	1 January 2021#
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 107	Statements of Cash Flows	1 January 2021#
MFRS 108	Accounting Policies, Changes in Accounting Estimates And Error	1 January 2020*
MFRS 112	Income Taxes	1 January 2019
MFRS 116	Property, Plant and Equipment	1 January 2021#
MFRS 119	Employee Benefits	1 January 2019
MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2019/ Deferred
MFRS 132	Financial Instruments: Presentation	1 January 2021#
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 136	Impairment of Assets	1 January 2021#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*
MFRS 138	Intangible Assets	1 January 2020*
MFRS 140	Investment Property	1 January 2021#
New IC Int		
IC Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IC Int		
IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 32	Intangible Assets – Web Site Costs	1 January 2020*

** Amendments to References to the Conceptual Framework in MFRS Standards*
 # Amendments as to the consequence of effective of MFRS 17 Insurance Contract

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

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

MFRS 16 Leases

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

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

On initial adoption of MFRS 16, there may be impact on the accounting treatment for leases, which the Group as a lessee currently accounts for as operating leases. On adoption of this standard, the Group will be required to capitalise its rented premises and equipment on the statements of financial position by recognising them as "rights-of-use" assets and their corresponding lease liabilities for the present value of future lease payments.

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

Amendments to MFRS 3 Business Combinations and MFRS 11 Joint Arrangements

Amendments to MFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. Amendments to MFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to MFRS 9 Financial Instruments

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

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

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

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

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

Amendments to MFRS 112 Income Taxes

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

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

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

Amendments to MFRS 119 Employee Benefits

Amendments to MFRS 119 require an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

Amendments to MFRS 123 Borrowing Costs

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

Amendments to MFRS 128 Investments in Associates and Joint Ventures

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

IC Int 23 Uncertainty over Income Tax Treatments

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

(i) assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.
(ii) reflect the effect of uncertainty in determining the related tax position (using either the most likely amount or the expected value method) if it concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

Amendments to References to the Conceptual Framework in MFRS Standards

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

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

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

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

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

2.3.2 The Group is currently performing a detailed analysis to determine the election of the practical expedients and to quantify the financial effects arising from the adoption of the new MFRSs, amendments/improvements to MFRSs, new IC Int and amendment to IC Int.

2.4 Functional and presentation currency

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

2.5 Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in the Note 3 to the financial statements.

2.6 Use of estimates and judgement

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the Group's and the Company's financial statements are disclosed in Note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the financial statements of the Group and of the Company.

3.1 Basis of consolidation

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

(a) Subsidiaries

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

(b) Business combinations

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

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

(c) Loss of control

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

(d) Non-controlling interests

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

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(e) Transactions eliminated on consolidation

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

3.2 Separate financial statements

In the Company's statement of financial position, investment in subsidiaries are measured at cost less any accumulated impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs. The policy for the recognition and measurement of impairment losses shall be applied on the same basis as would be required for impairment of non-financial assets as disclosed in Note 3.10(b) to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.3 Foreign currency transactions and operations

(a) Translation of foreign currency transactions

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

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

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

Foreign currency differences arising on retranslation are recognised in profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the foreign currency translation reserve ("FCTR") in equity.

(b) Translation of foreign operations

The assets and liabilities of operations denominated in functional currencies other than RM, including fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for fair value adjustments arising from business combinations before 1 January 2011 (the date when the Group first adopted MFRS) which are treated as assets and liabilities of the Company. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

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

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

3.4 Financial instruments

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

<u>Accounting policies applied from 1 January 2018</u>

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instrument (cont'd)

Accounting policies applied from 1 January 2018 (Cont'd)

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

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

(a) Subsequent measurement

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

(i) Financial assets

For the purposes of subsequent measurement, financial assets are classified in two categories:
- Financial assets at amortised cost
- Financial assets at fair value through profit or loss

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

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

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

- **Amortised cost**
  Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment is in accordance with Note 3.10(a). Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instrument (cont'd)

Accounting policies applied from 1 January 2018 (Cont'd)

(a) Subsequent measurement (cont'd)

The Group and the Company categorise the financial instruments as follows: (Cont'd)

(i) Financial assets (cont'd)

Equity instruments

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

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

(ii) Financial liabilities

The Group and the Company classify their financial liabilities at amortised cost.

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

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

(c) Regular way purchase or sale of financial assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instrument (cont'd)

Accounting policies applied from 1 January 2018 (Cont'd)

(d) Derecognition

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

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

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

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

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

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

(e) Offsetting of financial instruments

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

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

Accounting policies applied until 31 December 2017

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instrument (cont'd)

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

(a) Subsequent measurement

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

(i) Financial assets

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a) to the financial statements. Gains and losses are recognised in profit or loss through the amortisation process.

(ii) Financial liabilities

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

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

(c) Regular way purchase or sale of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instrument (cont'd)

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

(d) Derecognition

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

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

(e) Offsetting of financial instruments

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

3.5 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(b) to the financial statements.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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

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

(b) Subsequent costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Property, plant and equipment (cont'd)

(c) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	82 years
Buildings	50 years
Plant, equipment and fittings	4 – 10 years
Renovations	3 – 10 years
Motor vehicles	5 years

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

(d) Derecognition

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

3.6 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

(a) Finance lease

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

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

Leasehold land which in substance is a finance lease is classified as property, plant and equipment or as investment property if held to earn rental income or for capital appreciation or for both.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Leases (cont'd)

(b) Operating lease

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

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

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

3.7 Investment properties

(a) Investment properties carried at cost

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in Note 3.5 to the financial statements.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of each investment property. Freehold land is not depreciated. The estimated useful lives for the current and comparative periods used are as follows:

Leasehold land	60 – 93 years
Buildings	50 years

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised net within "other income" or "other operating expenses" respectively in profit or loss in the period in which the item is derecognised.

b) Determination of fair value

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

The 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.

3.8 Inventories

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Group and the Company in the management of their short-term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

3.10 Impairment of assets

(a) Impairment of financial assets

Accounting policies applied from 1 January 2018

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

The Group and the Company measure loss allowance at an amount equal to lifetime expected credit loss, except for the following, which are measured as 12-month expected credit loss:
- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

The Group and the Company assume that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group and the Company consider a financial asset to be in default when:
- the borrower is unable to pay its credit obligations to the Group and the Company in full, without taking into account any credit enhancements held by the Group and the Company; or
- the contractual payment of the financial asset is more than 90 days past due unless the Group and the Company have reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Impairment of assets (cont'd)

(a) Impairment of financial assets (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default of past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of expected credit losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss.

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

Accounting policies applied until 31 December 2017

All financial assets (except for investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

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

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group and the Company make an estimate of the asset's recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Impairment of assets (cont'd)

(b) Impairment of non-financial assets (cont'd)

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

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

3.11 Share capital

(a) Ordinary shares

Ordinary shares are equity instruments. An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(b) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares in the statement of changes in equity.

Where treasury shares are sold or reissued subsequently, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

3.12 Contract liability

The Group operates the D Rewards customer loyalty programme which allows customers to accumulate points when they purchase products in subsidiaries' outlets. The points can be redeemed for free or for discounted goods from subsidiaries' outlets.

Contract liability is the obligation to transfer goods and services to customer for which the Group has received the consideration or has billed the customer.

3.13 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.13 Employee benefits (cont'd)

(b) Defined contribution plan

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a deduction in future payments is available.

3.14 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.15 Revenue and other income

<u>Accounting policies applied from 1 January 2018</u>

(a) Sales of goods and rendering of services

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

Revenue recognition of the Group and the Company are applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer).

Revenue from sale of goods are recognised at a point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Revenue and other income (cont'd)

Accounting policies applied from 1 January 2018 (cont'd)

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

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

(d) Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentive granted is recognised as an integral part of the total rental income, over the term of the lease.

Accounting policies applied until 31 December 2017

(a) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, and trade discounts. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(b) Interest income

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

(c) Dividend income

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

(d) Rental income

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

3.16 Borrowing costs

Borrowing costs are interests and other costs that the Group and the Company incur in connection with borrowing of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The Group and the Company begin capitalising borrowing costs when the Group and the Company have incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Borrowing costs (cont'd)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3.17 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

(b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit 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 differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, except where the Group is able to control the reversal timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Earnings per share

The Group presents basic earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

The Group does not have any potential dilutive ordinary shares. Accordingly, the diluted EPS is not presented.

3.19 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments' results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Director of the Group, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

3.20 Fair value measurements

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

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group and the Company use observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group and the Company can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Group and the Company recognise transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3.21 Contingencies

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amount recognised in the financial year include the following:

(a) Write-down of slow moving inventories

The Group writes down their slow moving inventories based on the assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses sales trend and current economic trends when making a judgement to evaluate the adequacy of the write-down of slow moving inventories. Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

The carrying amounts of the Group's inventories are disclosed in Note 9 to the financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Land RM'000	Buildings RM'000	Plant, equipment and fittings RM'000	Renovations RM'000	Motor vehicles RM'000	Total RM'000
2018							
Cost							
At 1 January 2018		12,370	10,543	14,351	8,204	5,094	50,562
Additions		-	-	467	1,100	1,724	3,291
Disposals		-	-	(124)	-	(2,340)	(2,464)
Written off		-	-	(459)	(263)	-	(722)
Exchange differences		-	-	(70)	(2)	4	(68)
At 31 December 2018		12,370	10,543	14,165	9,039	4,482	50,599
Accumulated depreciation							
At 1 January 2018		262	1,894	10,307	5,379	3,158	21,000
Depreciation charge for the financial year	21	22	166	1,096	959	743	2,986
Disposals		-	-	(93)	-	(1,924)	(2,017)
Written off		-	-	(325)	(156)	-	(481)
Exchange differences		-	-	65	(2)	1	64
At 31 December 2018		284	2,060	11,050	6,180	1,978	21,552
Carrying amount							
At 31 December 2018		12,086	8,483	3,115	2,859	2,504	29,047

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Note	Land RM'000	Buildings RM'000	Plant, equipment and fittings RM'000	Renovations RM'000	Motor vehicles RM'000	Total RM'000
2017							
Cost							
At 1 January 2017		12,370	10,531	14,114	7,723	5,127	49,865
Additions		-	985	887	888	1,179	3,939
Disposals		-	-	(47)	-	(876)	(923)
Written off		-	-	(278)	(93)	(26)	(397)
Disposal of subsidiaries	7	-	(973)	(301)	(290)	(305)	(1,869)
Exchange differences		-	-	(24)	(24)	(5)	(53)
At 31 December 2017		12,370	10,543	14,351	8,204	5,094	50,562
Accumulated depreciation							
At 1 January 2017		240	1,811	9,453	4,784	3,504	19,792
Depreciation charge for the financial year	21	22	196	1,230	810	813	3,071
Disposals		-	-	(10)	-	(827)	(837)
Written off		-	-	(164)	(93)	(24)	(281)
Disposal of subsidiaries	7	-	(113)	(188)	(100)	(303)	(704)
Exchange differences		-	-	(14)	(22)	(5)	(41)
At 31 December 2017		262	1,894	10,307	5,379	3,158	21,000
Carrying amount							
At 31 December 2017		12,108	8,649	4,044	2,825	1,936	29,562

Company	Note	Motor Vehicles RM'000	Total RM'000
Cost			
At 1 January 2017		-	-
Addition		483	483
At 31 December 2018		483	483
Accumulated depreciation			
At 1 January 2017		-	-
Depreciation charge for the financial year	21	56	56
At 31 December 2018		56	56
Carrying amount			
At 31 December 2018		427	427

5. **PROPERTY, PLANT AND EQUIPMENT (cont'd)**

(a) During the financial year, the Group and the Company acquired property, plant and equipment with an aggregate cost of RM3,291,000 (2017: RM3,939,000) and RM483,000 (2017: Nil) respectively, which are satisfied by the followings:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Finance lease arrangements	1,382	641	379	-
Cash payments	1,909	3,298	104	-
	3,291	3,939	483	-

(b) The carrying amount of property, plant and equipment acquired under finance lease arrangement as at the end of the financial year are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Motor vehicles	2,028	1,163	427	-

(c) Freehold land and buildings with a carrying amount of RM18,491,000 (2017: RM11,959,000) has been pledged as security to secure term loans of the Group as disclosed in Note 16 to the financial statements.

6. **INVESTMENT PROPERTIES**

		Group	
	Note	**2018 RM'000**	**2017 RM'000**
At cost			
At 1 January		31,903	32,013
Exchange differences		(58)	(110)
At 31 December		31,845	31,903
Less: Accumulated depreciation			
At 1 January		2,262	1,914
Depreciation charge for the financial year	21	462	359
Exchange differences		(153)	(11)
		2,571	2,262
Less: Accumulated impairment loss			
At 1 January/31 December		148	148
Carrying amount		29,126	29,493

Investment property of subsidiaries with carrying amount of RM28,955,000 (2017: RM24,518,000) have been pledged as security to secure term loans granted to the Group as disclosed in Note 16 to the financial statements.

Included in investment properties of the Group is a building held in trust for the Group by a Director with carrying amount of RM4,669,000 (2017: RM4,789,000).

6. INVESTMENT PROPERTIES (cont'd)

The following are recognised in profit or loss in respect of investment properties:

	Group	
	2018 RM'000	**2017 RM'000**
Rental income	1,213	1,104
Direct operating expenses:		
- income generating investment properties	394	476

Fair value information

Fair value of investment properties are categories as follows:

Group	**Level 3 RM'000**	**Total RM'000**
2018		
Leasehold land and buildings	46,842	46,842
2017		
Leasehold land and buildings	51,297	51,297

There are no Level 1 investment properties or transfers between Level 1 and Level 2 during the financial year ended 31 December 2018 and 31 December 2017.

Level 3 fair value is estimated using unobservable inputs for the investment property.

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the significant unobservable inputs used in the valuation models.

Description of valuation technique	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
(i) The Group estimates the fair value of investment properties based on the following key assumptions: - Comparison of the Group's investment properties with similar properties that were listed for sale within the same locality or other comparable localities.	Market price of property in vicinity compared.	The estimated fair value would increase/ (decrease) if market prices of property were higher/(lower).

7. INVESTMENT IN SUBSIDIARIES

	Company 2018 RM'000	Company 2017 RM'000
Unquoted shares, at cost		
At beginning/end of the financial year	54,400	54,400

Details of the subsidiaries are as follows:

Name of company	Principal place of business/Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %	Principal activities
Subsidiaries				
P.Y.T. Jewel & Time Sdn. Bhd.	Malaysia	100	100	Investment holding and trading in gold and jewellery
Diamond & Platinum Sdn. Bhd.	Malaysia	100	100	Trading in diamonds and jewellery
Jewelmart International Sdn. Bhd.	Malaysia	100	100	Investment holding
Subsidiaries of P.Y.T. Jewel & Time Sdn. Bhd.				
DeGem Masterpiece Sdn. Bhd.	Malaysia	100	100	Investment holding and trading in gold and jewellery
DeGem Prestige Sdn. Bhd.	Malaysia	90	90	Trading in gold and jewellery
Inticraft Sdn. Bhd.	Malaysia	100	100	Manufacturing and trading in gold and jewellery
Tong Yek Jewellers Sdn. Bhd.	Malaysia	100	100	Investment holding and provision of management services
Diamond Mart Sdn. Bhd.*	Malaysia	100	100	Property investment
DeGem Capital Sdn. Bhd.	Malaysia	100	100	Investment holding and trading in gold medals and badges
DeGem Diamond Collection Sdn. Bhd.	Malaysia	100	100	Trading in diamonds and jewellery
Telenaga Sdn. Bhd.*	Malaysia	100	100	Property investment
Titanpuri Sdn. Bhd.*	Malaysia	80	80	Trading in gold medals and badges
Solireno Sdn. Bhd.*	Malaysia	70	70	Trading and manufacture of gold and jewellery
Depaddle Sdn. Bhd.*	Malaysia	100	100	Trading in diamonds and jewellery

7. INVESTMENT IN SUBSIDIARIES (cont'd)

Details of the subsidiaries are as follows: (cont'd)

Name of company	Principal place of business/Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %	Principal activities
Subsidiaries of Diamond & Platinum Sdn. Bhd.				
Diamond & Platinum (B) Sdn. Bhd.*	Brunei	100	100	Trading in diamonds and jewellery
Subsidiaries of Jewelmart International Sdn. Bhd.				
Fareway International Limited *	Hong Kong	100	100	Trading in gold and jewellery
DeGem International Pte. Ltd.*	Singapore	100	100	Trading in gold and jewellery and investment holding
DeGem Prestige Pte. Ltd.*	Singapore	100	100	Trading in diamonds and jewellery

* Audited by auditors other than Baker Tilly Monteiro Heng PLT

(a) Disposal of Bestline International Corporation Limited, Bestline Design Sdn. Bhd. and Bestline Limited ("Bestline Group") in the previous financial year

On 10 August 2017, the Company disposed its 70% equity investment in Bestline International Corporation Limited, Bestline Design Sdn. Bhd. and Bestline Limited, which are wholly owned subsidiary of Jewelmart International Sdn. Bhd. for a total consideration of RM3,355,000.

Effects of disposal of Bestline Group on the financial position and cash flow of the Group

	2017 RM'000
Property, plant and equipment	1,165
Inventories	7,230
Trade and other receivables	8,845
Cash and cash equivalents	1,054
Current tax assets	257
Trade and other payables	(12,343)
Deferred tax liabilities	(4)
Loans and borrowings	(618)
Current tax liabilities	(44)
Translation differences	1,521
Net assets and liabilities	7,063
Cash consideration received	(3,355)
	3,708
Reclassification adjustment of exchange translation reserve	(5,469)
Gain on disposal of investment in subsidiaries	(1,761)

7. INVESTMENT IN SUBSIDIARIES (cont'd)

(a) Disposal of Bestline International Corporation Limited, Bestline Design Sdn. Bhd. and Bestline Limited ("Bestline Group") in the previous financial year (cont'd)

Effects of acquisition on cash flows

	2017 RM'000
Cash consideration received	3,355
Cash and cash equivalents	(1,054)
Translation differences	1,512
Net cash inflows arising from disposal	3,813

(b) De-registration of DeGem Masterpiece Pte. Ltd. in the previous financial year

On 6 November 2017, DeGem Masterpiece Pte. Ltd., a 30% owned by Jewelmart International Sdn. Bhd. and 30% owned by DeGem Masterpiece Sdn. Bhd., which in turn is an indirect subsidiary of DeGem Berhad, was deregistered from the Accounting and Corporate Regulatory Authority of Singapore.

Effects of de-registration of DeGem Masterpiece Pte. Ltd. on the financial position and cash flow of the Group

	2017 RM'000
Trade and other receivables	4,306
Cash and cash equivalents	234
Net assets and liabilities	4,540
Cost of investment	(4,420)
	(120)
Reclassification adjustment of exchange translation reserve	434
Loss on deregistration of subsidiary	314

Effects of acquisition on cash flows

	2017 RM'000
Cash and cash equivalents	234
Net cash inflows arising from deregistration	234

7. INVESTMENT IN SUBSIDIARIES (cont'd)

(c) Non-controlling interests ("NCI") in subsidiaries

The Group's subsidiaries that have non-controlling interest are as follows:

	Solireno Sdn. Bhd. RM'000	Titanpuri Sdn. Bhd. RM'000	DeGem Prestige Sdn. Bhd. RM'000	Total RM'000
2018				
NCI percentage of ownership interest and voting interest	30%	20%	10%	
Carrying amount of NCI	258	12	1,060	1,330
Profit allocated to NCI	77	1	39	117
2017				
NCI percentage of ownership interest and voting interest	30%	20%	10%	
Carrying amount of NCI	181	11	1,021	1,213
Profit allocated to NCI	22	4	4	30

(d) Summarised financial information of non-controlling interests

The summarised financial information (before intra-group elimination) of the Group's subsidiaries that have non-controlling interests are as follows:

	Solireno Sdn. Bhd. RM'000	Titanpuri Sdn. Bhd. RM'000	DeGem Prestige Sdn. Bhd. RM'000	Total RM'000
2018				
Assets and liabilities				
Non-current assets	494	-	2,217	2,711
Current assets	1,975	127	10,395	12,497
Non-current liabilities	(48)	-	(282)	(330)
Current liabilities	(1,561)	(65)	(1,729)	(3,355)
Net assets	860	62	10,601	11,523
Results				
Revenue	6,191	86	7,068	13,345
Profit for the financial year	258	5	388	651
Total comprehensive income	258	5	388	651
Net cash flows from operating activities	373	38	166	577
Net cash flows used in investing activities	(74)	-	(1)	(75)
Net cash flows used in financing activities	-	-	(97)	(97)
Net increase in cash and cash equivalents	299	38	68	405

7. INVESTMENT IN SUBSIDIARIES (cont'd)

(d) Summarised financial information of non-controlling interests (cont'd)

The summarised financial information (before intra-group elimination) of the Group's subsidiaries that have non-controlling interests are as follows: (Cont'd)

	Solireno Sdn. Bhd. RM'000	Titanpuri Sdn. Bhd. RM'000	DeGem Prestige Sdn. Bhd. RM'000	Total RM'000
2017				
Assets and liabilities				
Non-current assets	481	-	2,413	2,894
Current assets	1,329	90	10,449	11,868
Non-current liabilities	(409)	-	(603)	(1,012)
Current liabilities	(796)	(32)	(2,050)	(2,878)
Net assets	605	58	10,209	10,872
Results				
Revenue	5,896	144	7,207	13,247
Profit for the financial year	74	23	36	133
Total comprehensive income	74	23	36	133
Net cash flows (used in)/from operating activities	(377)	12	(1,248)	(1,613)
Net cash flows used in investing activities	(356)	-	(5)	(361)
Net cash flows from financing activities	792	-	1,212	2,004
Net increase/(decrease) in cash and cash equivalents	59	12	(41)	30

8. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At 1 January	1,131	421	-	25
Recognised in profit or loss (Note 22)	(1,081)	728	(3)	(25)
Disposal of subsidiaries [Note 7(a)]	-	4	-	-
Translation differences	(21)	(22)	-	-
At 31 December	29	1,131	(3)	-

(a) Presented after appropriate off-setting as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets	634	1,798	-	-
Deferred tax liabilities	(605)	(667)	(3)	-
	29	1,131	(3)	-

8. DEFERRED TAX ASSETS/(LIABILITIES) (cont'd)

(b) The components of deferred tax assets/(liabilities) prior to offsetting are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deferred tax assets				
Inventories	-	701	-	-
Unutilised tax losses	-	757	-	-
Others	634	340	-	-
	634	1,798	-	-
Deferred tax liabilities				
Differences between carrying amounts of property, plant and quipment and their tax base	(582)	(657)	(3)	-
Others	(23)	(10)	-	-
	(605)	(667)	(3)	-

(c) The estimated amount of temporary differences for which no deferred tax assets are recognised in the financial statements are as follows:

	Group	
	2018 RM'000	2017 RM'000
Provisions and contract liability	4,833	3,538

9. INVENTORIES

	Group	
	2018 RM'000	2017 RM'000
At cost:		
Raw materials	15,984	38,197
Work-in-progress	3,068	2,639
Finished goods	186,458	174,460
	205,510	215,296

The cost of inventories of the Group recognised as an expense in cost of sales during the financial year is RM96,385,000 (2017: RM111,069,000). In addition, the expense recognised in the profit or loss include the following:

	Group	
	2018 RM'000	2017 RM'000
Inventories written down	875	512
Reversal of inventories written down	-	(17)
	875	495

10. TRADE AND OTHER RECEIVABLES

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Trade					
Third parties	(a)	8,262	26,864	-	-
Less: Impairment losses for trade receivables		-	(24)	-	-
		8,262	26,840	-	-
Non-trade					
Other receivables		487	678	-	-
Amounts owing by subsidiaries	(b)	-	-	19,958	22,348
Deposits		2,738	3,423	16	16
Prepayments		1,063	1,429	-	11
GST refundable		1,489	3,107	-	-
		5,777	8,637	19,974	22,375
Total trade and other receivables		14,039	35,477	19,974	22,375

(a) Trade receivables

Trade receivables are non-interest bearing and normal credit terms offered by the Group is 30 days (2017: 30 days) from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

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

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
At 1 January	24	1,408	-	1,507
Reversal of impairment losses	(24)	(771)	-	(1,507)
Disposal of subsidiaries	-	(613)	-	-
At 31 December	-	24	-	-

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

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

(b) Amounts owing by subsidiaries represent loans to subsidiaries which are unsecured, subject to interest at 5.5% (2017: 5.5%) per annum and repayable on demand in cash and cash equivalents.

11. OTHER INVESTMENT

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Current				
At fair value through profit or loss:				
Money market funds	5,396	2,501	1,801	-

The money market funds of the Group and of the Company are redeemable upon request or 1 day notice and bear dividend yield at rates of 4.71% (2017: 3.77%) per annum as at the financial year end.

12. CASH AND CASH EQUIVALENTS

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Cash and bank balances		26,944	30,465	654	80
Cash deposits placed with licensed banks	(a)	238	2,227	-	1,505
Fixed deposits with maturity more than 3 months	(b)	1,212	571	-	-
Cash and cash equivalents as reported in the statements of financial position		28,394	33,263	654	1,585
Less: Fixed deposit with maturity more than 3 months		(1,212)	(571)	-	-
Less: Bank overdrafts		(648)	(3,827)	-	-
Cash and cash equivalents as reported in the statements of cash flows		26,534	28,865	654	1,585

(a) Cash deposits placed with licensed banks are placement made for a period of three months or less, depending on the immediate cash requirements of the Group and bear interest at rates ranging from 2.95% to 3.10% (2017: 2.70% to 2.95%) per annum.

(b) Fixed deposits with maturity more than 3 months bear interest at rates ranging from 2.70% to 3.15% (2017: 0.25% to 3.05%) per annum and mature within one year.

13. SHARE CAPITAL

	Group and Company			
	Number of ordinary shares		<-----------Amount---------->	
	2018 Unit '000	2017 Unit '000	2018 RM'000	2017 RM'000
Issued and fully paid up:				
At 1 January	134,000	134,000	77,435	67,000
Transition to no-par value regime:				
- Share premium	-	-	-	10,435
At 31 December	134,000	134,000	77,435	77,435

The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account of RM10,435,000 becomes part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount standing to the credit of its share premium account of RM10,435,000 for purposes as set out in Section 618(3) of the Act.

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

14. TREASURY SHARES

Treasury shares relate to ordinary shares of the Company that are repurchased and held by the Company. The Company's share buyback scheme was approved by the Company's shareholders in the Annual General Meeting held on 7 June 2018 for the Company to repurchase 10% of its issued ordinary shares. The directors of the Company believe that the repurchase plan are applied in the best interests of the Company and its shareholders. The share repurchases made to date were financed by internally generated funds and are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act 2016 in Malaysia.

14. TREASURY SHARES (cont'd)

There was no repurchase of the Company's issued ordinary shares, nor any resale, cancellation or distribution of treasury shares during the financial year.

In the previous financial year, the Company repurchased 8,000 ordinary shares of its issued share capital from the open market. The total consideration paid for the repurchase was RM7,620. The average price paid for the shares repurchased is RM0.9525 per ordinary shares.

As at 31 December 2018, the Company held 3,167,900 (2017: 3,167,900) treasury shares out of its 134,000,000 issued and paid-up ordinary shares. Such treasury shares are held at carrying amount of RM3,201,991 (2017: RM3,201,991).

15. OTHER RESERVES

	Group	
	2018 RM'000	2017 RM'000
Exchange reserve	1,274	1,711
Other capital reserves	2,500	2,500
	3,774	4,211

(a) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency as well as the foreign currency differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity of the foreign operation or another currency.

(b) Other capital reserve

The other capital reserve comprises an amount transferred from retained earnings arising from the issuance of bonus shares by a subsidiary.

16. LOANS AND BORROWINGS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-current:				
Term loans	35,463	36,522	-	-
Finance lease liabilities	1,156	609	266	-
	36,619	37,131	266	-
Current:				
Term loans	2,931	2,688	-	-
Finance lease liabilities	331	174	76	-
Bank overdraft	648	3,827	-	-
	3,910	6,689	76	-
Total loans and borrowings:				
Term loans	38,394	39,210	-	-
Finance lease liabilities	1,487	783	342	-
Bank overdraft	648	3,827	-	-
	40,529	43,820	342	-

16. LOANS AND BORROWINGS (cont'd)

(a) The loans and borrowings of the Group are secured by the following:

(i) Legal charge over the land and buildings of subsidiaries as disclosed in Note 5(c) to the financial statements;
(ii) Legal charge over the investment properties of subsidiaries as disclosed in Note 6 to the financial statements; and
(iii) Corporate guarantee of the Company.

(b) The interest rates of the loans and borrowings at the reporting date are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	%	%	%	%
Term loans	2.42 - 6.72	0.75 - 4.95	-	-
Finance lease liabilities	1.98 - 6.24	2.33 - 6.24	1.98	-
Bank overdraft	7.47 - 7.51	7.47 - 7.51	-	-

(c) Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Minimum lease payments:				
Not later than one year	391	217	83	-
Later than one year and not later than five years	1,317	733	293	-
	1,708	950	376	-
Less: Future finance charges	(221)	(167)	(34)	-
Present value of minimum lease payments	1,487	783	342	-
Present value of minimum lease payment:				
Not later than one year	331	174	76	-
Later than one year and not later than five years	1,156	609	266	-
	1,487	783	342	-
Less: Amount due within 12 months	(331)	(174)	(76)	-
Amount due after 12 months	1,156	609	266	-

17. TRADE AND OTHER PAYABLES

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade					
Trade payables	(a)	11,860	36,056	-	-
Non-trade					
Other payables		1,172	2,408	-	-
Accruals		6,881	8,307	122	117
Amount owing to directors	(b)	17	-	-	-
Deposits	(c)	2,357	5,518	-	-
GST payable		-	65	-	-
		10,427	16,298	122	117
		22,287	52,354	122	117

17. TRADE AND OTHER PAYABLES (cont'd)

(a) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group ranging from 30 to 120 days (2017: 30 to 120 days).

(b) Amount owing to directors are non-trade in nature, unsecured, non-interest bearing and repayable upon demand in cash and cash equivalents.

(c) Included in deposits of the Group are considerations placed by customers for the purchases of goods amounting to RM1,738,000 (2017: RM4,907,000). The deposits received are unsecured, non-interest bearing and are to be set off against purchases of goods expected within a period of less than one year.

18. CONTRACT LIABILITY

	Group	
	2018 RM'000	**2017 RM'000**
At 1 January	1,440	1,192
Additions during the financial year	436	568
Recognised as revenue	(245)	(320)
At 31 December	1,631	1,440

Contract liability represents consideration received from the sale of goods that is attributed to the points issued under the D Rewards customer loyalty programme that are expected to be redeemed but are still outstanding as at the reporting date.

D Rewards customer loyalty programme

The Group allocates the consideration received from the sale of goods based on the points issued under its D Rewards customer loyalty programme. The Directors estimated the fair value of the consideration allocated to the points issued is reflective of its fair values, which are estimated based on the profitability of the redemption of the free gifts and rebate vouchers.

19. REVENUE

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
At point of time:				
Sales of goods	161,971	192,437	-	-
Interest income	-	-	1,156	1,185
Dividend income	-	-	-	2,090
	161,971	192,437	1,156	3,275

20. OTHER INCOME

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Gain on disposal of property, plant and equipment	334	270	-	-
Gain on disposal of subsidiaries	-	1,761	-	-
Interest income	197	235	1	-
Membership fees received	94	137	-	-
Rental income	1,441	1,184	-	-
Realised gain on foreign exchange	610	-	-	-
Reversal of inventories written down	-	17	-	-
Reversal of impairment losses on investment in a subsidiary	-	-	-	100
Unrealised gain on foreign exchange	-	618	-	-
Others	197	324	1	1
	2,873	4,546	2	101

21. PROFIT BEFORE TAX

Other than disclosed elsewhere in the financial statements, the following items have been charged/(credited) in arriving at profit before tax:

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Profit for the year is arrived at after charging/(crediting):				
Auditors' remuneration:				
- Malaysian operations				
- current year	177	173	35	35
- prior year	2	(3)	-	-
- Overseas operations				
- current year	61	68	-	-
Non statutory audit fees:				
- Malaysian operations	13	13	13	13
Bad debt written off	-	1,370	-	-
Deposits written off	-	4	-	-
Depreciation of investment properties	462	359	-	-
Depreciation of property, plant and equipment	2,986	3,071	56	-
Employee benefits expense [Note (a)]	30,669	36,006	633	454
Goodwill written off	-	87	-	-
Interest expense:				
- finance lease liabilities	53	46	4	-
- term loan	1,301	1,430	-	-
- overdraft	132	119	-	-
- others	-	75	-	87
Inventories written down	875	512	-	-
Loss on deregistration of a subsidiary	-	314	-	-
Net realised foreign exchange loss	-	1,735	-	-
Net unrealised foreign exchange loss	176	-	-	-
Rental expenses of premises	12,089	12,056	-	60
Property, plant and equipment written off	241	116	-	-

21. PROFIT BEFORE TAX (cont'd)

(a) Employee benefit expenses are:

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Defined contribution plans	2,810	3,041	-	-
Other employee benefits expense	27,859	32,965	633	454
	30,669	36,006	633	454

Included in employee benefits expenses are:

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Executive directors				
- Fees	240	178	240	178
- Other emoluments	5,204	5,594	-	-
	5,444	5,772	240	178
Non-executive directors				
- Fees	360	241	360	241
- Other emoluments	75	33	75	33
	435	274	435	274

22. INCOME TAX EXPENSE

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Statements of comprehensive income				
Current tax:				
Malaysia income tax				
- Current financial year	2,877	4,061	81	242
- Over provision in prior financial year	(131)	-	(16)	(7)
	2,746	4,061	65	235
Foreign tax				
- Current financial year	365	696	-	-
- Over provision in prior financial year	-	(31)	-	-
	365	665	-	-
Deferred tax (Note 8):				
Origination of temporary differences	40	50	3	-
Under/(Over) provision in prior financial year	1,041	(778)	-	25
	1,081	(728)	3	25
Income tax expense recognised in profit or loss	4,192	3,998	68	260

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

22. INCOME TAX EXPENSE (cont'd)

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Profit before tax	4,300	21,383	83	3,988
Tax at the Malaysian statutory income tax rate of 24% (2017: 24%)	1,032	5,132	20	957
Different tax rates in other countries	(35)	85	-	-
Non-taxable income	(444)	(2,366)		(887)
Non-deductible expenses	2,418	1,917	64	172
Deferred tax assets not recognised during the financial year	345	52	-	-
Utilisation of deferred tax assets not recognised in previous financial year	(34)	(13)	-	-
Under/(Over) provision in prior financial years				
- current tax	(131)	(31)	(16)	(7)
- deferred tax	1,041	(778)	-	25
Income tax expense	4,192	3,998	68	260

23. EARNINGS PER SHARE

(a) Basic earnings per share are based on profit for the financial year attributable to owners of the Company and the weighted average number of ordinary shares outstanding during the financial year, calculated as follows:

	Group	
	2018 RM'000	2017 RM'000
Basic (loss)/earnings per ordinary share		
(Loss)/Profit attributable to owners of the Company	(9)	17,355
Weighted average number of ordinary shares for basic earnings per share	134,000	134,000
Effect of treasury shares held	(3,168)	(3,168)
Weighted average number of ordinary shares for basic earnings per share	130,832	130,832
Basic (loss)/earnings per ordinary share (sen)	(0.01)	13.27

(b) The diluted earnings per ordinary share of the Group for the financial years ended 31 December 2018 and 2017 are the same as the basic earnings per ordinary share of the Group as the Group has no dilutive potential ordinary shares.

24. DIVIDENDS

	Company 2018 RM'000	Company 2017 RM'000
Recognised during the financial year:		
Dividends on ordinary shares:		
- Single tier interim dividend of 1sen per ordinary share for the financial year ended 31 December 2018, paid on 5 September 2018	1,308	-
- Single tier final dividend of 1.5sen per ordinary share for the financial year ended 31 December 2016, paid on 13 July 2017	-	1,963
	1,308	1,963

25. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned:

From 1 January 2018:
(i) Amortised cost
(ii) Fair value through profit or loss ("FVPL")

On and before 31 December 2017:
(i) Loans and receivables ("L&R")
(ii) Fair value through profit or loss ("FVPL")
- Held for trading ("HFT")
(iii) Other financial liabilities ("FL")

	Carrying amount RM'000	Amortised cost RM'000	FVPL RM'000
At 31 December 2018			
Financial assets			
Group			
Trade and other receivables, excluding prepayment and GST refundable	11,487	11,487	-
Cash and cash equivalents	28,394	28,394	-
Other investment	5,396	-	5,396
	45,277	39,881	5,396

25. FINANCIAL INSTRUMENTS (cont'd)

(a) Categories of financial instruments (Cont'd)

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned: (Cont'd)

	Carrying amount RM'000	Amortised cost RM'000	FVPL RM'000
At 31 December 2018 (Cont'd)			
Financial assets (Cont'd)			
Company			
Trade and other receivables, excluding prepayment and GST refundable	19,974	19,974	-
Cash and cash equivalents	654	654	-
Other investment	1,801	-	1,801
	22,429	20,628	1,801
Financial liabilities			
Group			
Loans and borrowings	40,529	40,529	-
Trade and other payables, excluding GST payable	22,287	22,287	-
	62,816	62,816	-
Company			
Loans and borrowings	342	342	-
Trade and other payables, excluding GST payable	122	122	-
	464	464	-

	Carrying amount RM'000	L&R RM'000	FVPL-HFT RM'000	FL RM'000
At 31 December 2017				
Financial assets				
Group				
Trade and other receivables, excluding prepayment and GST refundable	30,941	30,941	-	-
Cash and cash equivalents	33,263	33,263	-	-
Other investment	2,501	-	2,501	-
	66,705	64,204	2,501	-
Company				
Trade and other receivables, excluding prepayment and GST refundable	22,364	22,364	-	-
Cash and cash equivalents	1,585	1,585	-	-
	23,949	23,949	-	-

25. FINANCIAL INSTRUMENTS (cont'd)

(a) Categories of financial instruments (cont'd)

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned: (cont'd)

	Carrying amount RM'000	L&R RM'000	FVPL-HFT RM'000	FL RM'000
At 31 December 2017 (cont'd)				
Financial liabilities				
Group				
Loans and borrowings	43,820	-	-	43,820
Trade and other payables, excluding GST payable	52,289	-	-	52,289
	96,109	-	-	96,109
Company				
Trade and other payables, excluding GST payable	117	-	-	117

(b) Fair value measurement

The carrying amounts of cash and cash equivalents, short-term receivables and payables and short-term borrowings are reasonably approximate to their fair values due to the relatively short-term nature of these financial instruments.

The carrying amounts of long-term floating rate term loan is reasonable approximation of fair values as the loans will be re-priced to market interest rate on or near reporting date.

The fair value of finance lease liabilities is estimated using discounted cash flow analysis, based on current lending rate for similar type of lease arrangement.

There have been no transfer between Level 1 and Level 2 during the financial year (31.12.2017: no transfer in either directions).

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

		Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value			
	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group									
2018									
Financial assets									
Fair value through profit or loss									
- other investment	5,396	5,396	-	-	5,396	-	-	-	-
Financial liabilities									
Amortised cost									
- finance lease liabilities	1,487	-	-	-	-	-	-	1,315	1,315
2017									
Financial assets									
Held for trading									
- other investment	2,501	2,501	-	-	2,501	-	-	-	-
Financial liabilities									
Other financial liabilities									
- finance lease liabilities	783	-	-	-	-	-	-	528	528

25. FINANCIAL INSTRUMENTS (cont'd)

(b) Fair value measurement (cont'd)

Level 3 fair value

Fair value of financial instruments not carried at fair value
The fair value of finance lease liabilities are determined using the discounted cash flows method based on discount rates that reflects the issuer's borrowing rate as at the end of the reporting period.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's activities are exposed to a variety of financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk, interest rate risk and market price risk. The Group's and the Company's overall financial risk management objective is to optimise value for their shareholders.

The Board of Directors reviews and agrees policies and procedures for managing each of these risks and they are summarised below.

(a) Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. The Company's exposure to credit risk arises principally from loan and advances to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries.

The management has in place a credit procedure to monitor and minimise the exposure of default. Trade and other receivables are monitored on a regular and an ongoing basis. Credit evaluations are performed on all customers requiring credit over certain amount.

Trade receivables

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by the carrying amounts in the statements of financial position.

The carrying amount of trade receivables is not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group and the Company consider any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group and the Company have adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Due to the Group's large number of customers, concentration of credit risk with respect to receivables is limited except for one major customer which accounted for 35% (2017: 58%) of trade receivables.

Credit risk concentration profile

The Group determines the credit risk of its trade receivables by geographic region on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the reporting date are as follows:

	Group			
	2018		2017	
	RM'000	%	RM'000	%
Domestic	6,038	73%	19,541	73%
Foreign	2,224	27%	7,299	27%
	8,262	100%	26,840	100%

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

Credit risk concentration profile (cont'd)

The Group applies the simplified approach to providing for expected credit losses prescribed by MFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

The information about the credit risk exposure on the Group's trade receivables are as follows:

	Gross carrying amount RM'000
Group	
At 31 December 2018	
Current	4,282
1-30 days past due	603
31-60 days past due	49
61-90 days past due	2,167
91-120 days past due	859
More than 121 days past due	302
Total	8,262

On or before 31 December 2017

The ageing analysis of trade receivables as at 31 December 2017 was as follows:

	Group 2017 RM'000
Neither past due nor impaired	23,374
1-30 days past due not impaired	17
31-60 days past due not impaired	326
More than 121 days past due not impaired	3,147
	3,490
Impaired	
- Individually	(24)
	26,840

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Credit risk (cont'd)

Other receivables and other financial assets

For other receivables and other financial assets (including investment securities and cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's and the Company's maximum exposure to credit risk arising from other receivables and other financial assets is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

The Group and the Company consider the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group and the Company compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:
- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

Some intercompany loans between entities within the Group are repayable on demand. For loans that are repayable on demand, impairment losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower does not have sufficient highly liquid resources when the loan is demanded, the Group and the Company will consider the expected manner of recovery and recovery period of the intercompany loan.

Refer to Note 3.10(a) for the Group's and the Company's other accounting policies for impairment of financial assets.

Financial guarantee

The Company provides secured corporate guarantees to banks in respect of banking facilities granted to the subsidiaries.

The maximum exposure of the Company to credit risk amounted to RM33,906,000 (2017: RM35,227,000) representing the outstanding credit facilities of subsidiaries guaranteed by the Company as at the end of the reporting date. At the reporting date, there was no indication that the subsidiary would default on its repayments. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

The financial guarantee has not been recognised since the fair value on initial recognition was not material as the probability to call upon the corporate guarantee of the loans and borrowings is remote.

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations when they fall due. The Group's and the Company's exposure to liquidity risks arise primarily from mismatches of the maturities between financial assets and liabilities. The Group's and the Company's exposure to liquidity risk arise principally from trade and other payables, loans and borrowings.

The Group maintains a level of cash and cash equivalents to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

Maturity analysis

The maturity analysis of the Group's and the Company's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows:

		<---Contractual cash flows			--->
	Carrying amount RM'000	**On demand or within 1 year RM'000**	**Between 1 and 5 years RM'000**	**More than 5 years RM'000**	**Total RM'000**
Group					
2018					
Financial liabilities					
Trade and other payables, excluding GST payable	22,287	22,287	-	-	22,287
Loans and borrowings	40,529	5,348	25,888	18,966	50,202
	62,816	27,635	25,888	18,966	72,489
Group					
2017					
Financial liabilities					
Trade and other payables, excluding GST payable	52,289	52,289	-	-	52,289
Loans and borrowings	43,820	8,087	21,495	23,449	53,031
	96,109	60,376	21,495	23,449	105,320
Company					
2018					
Financial liabilities					
Trade and other payables	122	122	-	-	122
Loans and borrowings	342	83	293	-	376
Financial guarantee	-	33,906	-	-	33,906
	464	34,111	293	-	34,404
2017					
Financial liabilities					
Trade and other payables	117	117	-	-	117
Financial guarantee	-	35,227	-	-	35,227
	117	35,344	-	-	35,344

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Foreign currency risk

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's and the Company's operating activities (when sales, purchases, deposits with licensed bank and borrowings that are denominated in a foreign currency) and the Group's net investments in foreign subsidiaries. The foreign currencies in which these transactions are denominated are mainly United States Dollar ("USD"), Hong Kong Dollar ("HKD"), Singapore Dollar ("SGD") and Brunei Dollar ("BND").

The Group does not use any forward contracts to hedge against its exposure to foreign currency risk as the foreign exchange exposure in transactional currencies other than functional currency of the Group are kept to an acceptable level.

The Group's unhedged financial assets and liabilities of the Group that are not denominated in their functional currencies are as follows:

	Group				
	USD RM'000	**HKD RM'000**	**SGD RM'000**	**BND RM'000**	**Total RM'000**
2018					
Trade and other receivables	308	3,709	-	-	4,017
Deposits, cash and bank balances	1,272	4	225	-	1,501
Trade and other payables	(9,288)	(11)	-	-	(9,299)
2017					
Trade and other receivables	-	19,317	1,326	269	20,912
Deposits, cash and bank balances	300	3,365	4,041	1,004	8,714
Loans and borrowings	-	-	(3,336)	-	(3,336)
Trade and other payables	(10,744)	(20,436)	(1,590)	(441)	(33,211)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible changes in the USD and HKD, with all the variables held constant on the Group's profit for the financial year.

		Group	
		2018 RM'000	**2017 RM'000**
		Effect on profit for the financial year	
USD/RM	- strengthen by 10%	(586)	(794)
	- weaken by 10%	586	794
HKD/RM	- strengthen by 10%	281	171
	- weaken by 10%	(281)	(171)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) Interest rate risk

The Group's primary interest rate risk relates to deposits with licensed banks and borrowings. Deposits with licensed banks with fixed rate are exposed to a risk of change in fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not significantly exposed to interest rate risk. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings.

The interest rate relating to deposits with licensed banks and borrowings are disclosed in Notes 12(b) and 16(b) to the financial statements respectively.

The Company provides advances to its subsidiaries at an interest of 5.5% (2017: 5.5%) per annum and are repayable on demand.

Sensitivity analysis for interest rate risk

As at the reporting date, if interest rates had been 100 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM 297,000 (2017: RM327,000) higher/lower respectively, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observable market environment.

(e) Market price risk

The jewellery industry is generally affected by fluctuations in the price and supply of precious metals and stones. The supply and price of diamonds in the principal world market are significantly influenced by a single entity, The Diamond Trading Company, a subsidiary of De Beers Consolidated Mines Limited. To date, there has been no material impact on the availability and pricing of and demand for diamonds.

There are no hedging transactions entered into for other precious metals and stones.

27. OPERATING LEASE COMMITMENTS

The Group leases a number of outlets in the shopping malls under operating leases for average lease term between one to three years, with option to renew the lease at the end of the lease term. Lease payments are increased every renewal of tenancy agreement to reflect market rentals.

Future minimum rental payable under the non-cancellable operating lease at the reporting date is as follows:

	Group	
	2018 RM'000	**2017 RM'000**
- Not later than one year	8,965	10,750
- More than one year and not later than five years	13,211	15,782
	22,176	26,532

28. RELATED PARTIES

(a) Identity of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decision, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Group include:
(i) Company's ultimate holding company as disclosed in Note 1 to the financial statements;
(ii) Subsidiaries as disclosed in Note 7 to the financial statements;
(iii) Entities in which directors have substantial financial interests;
(iv) Entities in which director has a close member of the family;
(v) Entities in which the minority interest shareholders has significant financial interest; and
(vi) Key management personnel of the Group's and the Company's holding company, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

(b) Significant related party transactions

Significant related party transactions other than disclosed elsewhere in the financial statements are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Ultimate holding company				
Dividend paid	1,308	1,963	1,308	1,963
Subsidiaries				
Dividend income	-	-	-	(2,090)
Interest income	-	-	(1,126)	(1,156)
Management fees	-	-	6	6
Rental expenses	-	-	60	60
An entity in which the Director has a close family member				
Sales of goods	(928)	(1,517)	-	-
Purchases	907	2,405	-	-
Management fee paid	385	411	-	-

(c) Compensation of key management personnel

Key management personnel includes personnel having authority and responsibility for planning, directing and controlling the activities of the entities, directly or indirectly, including any director of the Group and of the Company.

The directors are the key personnel of the Group and of the Company. Information of directors' remuneration is disclosed in Note 21(a) to the financial statements.

29. SEGMENT INFORMATION

The Group prepared the following segment information in accordance with MFRS 8 Operating Segments based on the internal management reports of the Group's strategic business units which are regularly reviewed by the Group's Chief Executive Director (chief operating decision maker) and the Board of Directors for the purpose of making decisions about resource allocation and performance assessment.

29. SEGMENT INFORMATION (cont'd)

The three reportable operating segments are as follows:

Segments	Products and services
Retail, design and distribution	Suppliers and retailers of jewellery, diamonds, precious gemstones and gold bullion
Manufacturing	Manufacturer and trading in gold and jewellery
Investment holding and property investment	Investments in subsidiaries and properties

Segment profit

Segment performance is measured based on segment profit after tax, interest, and depreciation, as included in the internal management reports that are reviewed by the Group's Chief Executive Director and the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Inter-segment pricing is determined based on negotiated terms.

Segment assets

The total of segment assets is measured based on all assets of a segment, as included in the internal management reports that are reviewed by the Group's Chief Executive Director and the Board of Directors.

Segment liabilities

The total of segment liabilities is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Group's Chief Executive Director and the Board of Directors.

Segment capital expenditure

Segment capital expenditure is the total costs incurred during the financial year to acquire property, plant and equipment and investment properties.

	Note	Retail, design and distribution RM'000	Manufacturing RM'000	Investment holding and property investment RM'000	Eliminations RM'000	Consolidated RM'000
2018						
Revenue						
Revenue from external customers		154,593	7,378	-	-	161,971
Inter-segment revenue	(a)	57,298	35,017	4,013	(96,328)	-
Total revenue		211,891	42,395	4,013	(96,328)	161,971
Segment results		1,287	1,006	(2,570)	385	108
Included in the measurement of segment results are:						
Interest income		52	90	55	-	197
Interest expense		(891)	(138)	(457)	-	(1,486)
Depreciation of property, plant and equipment and investment properties		(2,730)	(356)	(362)	-	(3,448)
Rental expenses of premises		(12,189)	(143)	-	243	(12,089)
Income tax expense		(2,558)	(350)	(388)	(896)	(4,192)

29. SEGMENT INFORMATION (cont'd)

2018	Note	Retail, design and distribution RM'000	Manufacturing RM'000	Investment holding and property investment RM'000	Eliminations RM'000	Consolidated RM'000
Assets:						
Segment assets		267,194	56,073	141,803	(150,858)	314,212
Included in the measurement of segment assets are:						
Additions to non-current assets other than financial instruments and deferred tax assets		2,695	106	490	-	3,291
Liabilities:						
Segment liabilities		121,197	17,827	21,790	(95,471)	65,343
2017						
Revenue						
Revenue from external customers		182,146	10,092	199	-	192,437
Inter-segment revenue	(a)	84,082	34,208	19,100	(137,390)	-
Total revenue		266,228	44,300	19,299	(137,390)	192,437
Segment results		4,145	2,478	24,925	(14,163)	17,385
Included in the measurement of segment results are:						
Interest income		106	141	352	(364)	235
Interest expense		(1,921)	(181)	(1,063)	1,495	(1,670)
Depreciation of property, plant and equipment and investment properties		(2,648)	(442)	(340)	-	(3,430)
Rental expenses of premises		(12,813)	(109)	(346)	1,212	(12,056)
Income tax expense		(3,063)	(1,111)	(638)	814	(3,998)
Assets:						
Segment assets		300,600	55,891	144,151	(151,354)	349,288
Included in the measurement of segment assets are:						
Additions to non-current assets other than financial instruments and deferred tax assets		2,073	591	1,275	-	3,939
Liabilities:						
Segment liabilities		155,207	18,629	22,417	(97,471)	98,782

29. SEGMENT INFORMATION (cont'd)

(a) Inter-segment revenue are eliminated on consolidation.

(b) Geographical information

The following table provides an analysis of the Group's revenue and non-current assets, excluding financial instruments and deferred tax assets by geographical segment:

	Group			
	Revenue		Non-current assets	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Malaysia	134,913	137,656	53,127	53,816
Hong Kong	16,363	40,199	-	-
Others	10,695	14,582	5,046	5,239
	161,971	192,437	58,173	59,055

(c) Major customers

The Group has a diversified range of customers and wholesale customers. There were no significant concentration of revenue during the financial year.

30. CAPITAL MANAGEMENT

The primary objective of the Group's and the Company's capital management is to ensure that they maintain a strong credit rating and healthy capital ratio in order to support their business and maximise shareholder value. The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group and the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a debt to equity, which is net debts divided by total equity. Net debt comprises borrowings and trade and other payables, less cash and bank balances whereas total capital comprises the equity attributable to equity holders of the Group.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loans and borrowings	40,529	43,820	342	-
Trade and other payables	22,287	52,354	122	117
	62,816	96,174	464	117
Less: Cash and cash equivalents	(28,394)	(33,263)	(654)	(1,585)
Net debt	34,422	62,911	(190)	(1,468)
Total equity	248,869	250,506	76,891	78,184
Debt-to-equity ratio	14%	25%	-	-

Statement by Directors

Pursuant to Section 251(2) of the Companies Act 2016

We, **CHOONG KAI FATT** and **CHOONG KHOI ONN**, being two of the directors of DeGem Berhad, do hereby state that in the opinion of the directors, the accompanying financial statements as set out on pages 55 to 117 are drawn up in accordance with the 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 positions of the Group and of the Company as at 31 December 2018 and of their financial performance and cash flows for the financial year then ended.

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

....

CHOONG KAI FATT
Director

....

CHOONG KHOI ONN
Director

Kuala Lumpur

Date: 5 April 2019

Statutory Declaration

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

I, **CHOONG KHOI ONN**, being the director primarily responsible for the financial management of DeGem Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements as set out on pages 55 to 117 are correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

....

CHOONG KHOI ONN

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 5 April 2019.

Before me,

Independent Auditors' Report

to the members of DeGem Berhad

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DeGem Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 117.

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 theirs cash flows for the financial year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Group

Inventories (Note 4(a) and Note 9 to the financial statements)

The Group has significant inventory balance relating to its operations. The review of saleability and valuation of these inventories at lower of cost and net realisable value by the directors are major source of estimation uncertainty.

Our response:

Our audit procedures included, among others:

- understanding the design and implementation of controls associated with monitoring and detection and write down/off of slow-moving inventories;
- attending year end physical inventory count to observe physical existence and condition of the finished goods and reviewing the design and assessing the implementation of controls during the count;
- performing the review of the audit working papers of the significant component auditor;
- assessing subsequent sales and the Group's assessment on estimated net realisable value on selected samples of inventory items; and
- assessing whether the inventories have been written down to their net realisable values, if any, for inventory items with net realisable values lower than their costs.

Key Audit Matters (cont'd)

Company

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

Information Other than the Financial Statements and Auditors' Report Thereon

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

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

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

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

Responsibilities of Directors for the Financial Statements

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

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 intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The directors of the Company are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 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.

Baker Tilly Monteiro Heng PLT	Ng Boon Hiang
LLP0019411-LCA & AF 0117	No. 02916/03/2020 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur

Date: 5 April 2019

Analysis of Shareholdings
as at 29 March 2019

SHARE CAPITAL

Issued and fully paid-up capital	:	RM77,435,000/-
Total Number of issued shares	:	134,000,000 (inclusive of 3,167,900 Treasury shares)
Class of Shares	:	Ordinary shares
No. of Shareholders	:	904
Voting rights	:	1 vote per ordinary share

ANALYSIS BY SIZE OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Share Held	%
Less than 100	27	3.00	780	0.00
100 - 1,000	491	54.31	115,440	0.09
1,001 - 10,000	292	32.30	1,216,880	0.93
10,001 - 100,000	69	7.63	1,921,100	1.47
100,001 to less than 5% of issued shares	21	2.32	16,197,450	12.38
5% and above of issued shares	4	0.44	111,380,450	85.13
	904	100.00	130,832,100	100.00

LIST OF THIRTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares Held	%
1.	Legion Master Sdn. Bhd.	76,968,634	58.83
2.	Cartaban Nominees (Asing) Sdn. Bhd. (Exempt an for Standard Chartered Bank Singapore (EFGBHK-Asing)	13,195,900	10.09
3.	Kenanga Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Teh Yean Teong (021)	11,835,900	9.05
4.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. (Exempt an for Deutsche Bank AG Singapore (Asing WM CLT)	9,380,016	7.17
5.	Dato' Hasan bin M. Taib	3,000,000	2.29
6.	Choong Kay Cheong	2,508,000	1.92
7.	Choong Sin Cheong	2,500,000	1.91
8.	Cherie Sumana Weerasena	2,126,000	1.62
9.	Kenanga Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Cheong Chen Yue)	1,142,200	0.87
10.	Choong Khoi Onn	640,000	0.49

LIST OF THIRTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares Held	%
11.	Cheong Chen Yue	600,000	0.46
12.	Peninsular Logistic Sdn. Bhd.	591,150	0.45
13.	Lai Moi Foong	512,700	0.39
14.	RHB Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Wong Yee Hui)	481,400	0.37
15.	Alliancegroup Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Cheong Chen Yue)	400,000	0.31
16.	Yeoh Mooi Kim	398,600	0.30
17.	Yeoh Phek Leng	225,000	0.17
18.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Lim Bee Ying)	165,100	0.13
19.	Maybank Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Lau Eng Guang)	162,000	0.12
20.	DB (Malaysia) Nominee (Asing) Sdn. Bhd. (Deutsche Bank AG Singapore For Yeoman 3-Rights Value Asia Fund) (PTSL)	150,000	0.11
21.	Ong Bee Lian	148,800	0.11
22.	Choong Khoi Onn	120,000	0.09
23.	Onn Ping Lan	119,300	0.09
24.	Kenanga Nominees (Tempatan) Sdn. Bhd. (Pledged Securities Account for Teh Siew Wah) (021)	105,200	0.08
25.	Yeoh Pei Kee	102,000	0.08
26.	Susy Ding	88,100	0.07
27.	Nik Anida binti Nik Manshor	75,000	0.06
28.	Nik Awang @ Wan Azmi bin Wan Hamzah	75,000	0.06
29.	Maggie Leong Mei Kay	71,000	0.05
30.	Lim Bee Ying	70,000	0.05
		127,957,000	97.79

Substantial Shareholders
(As shown in the Register of Substantial Shareholders)

	No. of ordinary Shares			
Name of Substantial Shareholders	**Direct**	**%**	**Indirect**	**%**
Legion Master Sdn. Bhd.	76,968,634	58.83	-	-
Choong Kai Soon	-	-	77,367,234*#	59.13
Yeoh Mooi Kim ^	398,600	0.30	-	-
Choong Kai Fatt	-	-	76,968,634*	58.83
Choong Khoi Onn	760,000	0.58	76,968,634*	58.83
Choong Sin Cheong ^	2,500,000	1.91	76,968,634*	58.83
Choong Kay Cheong	2,508,000	1.92	76,968,634*	58.83
Teh Yean Teong	11,835,900	9.05	-	-

* Deemed interested by virtue of his direct/indirect shareholdings in Legion Master Sdn. Bhd.
# Deemed interest through his spouse's shareholding by virtue of Section 59(11)(c) of the Companies Act, 2016.
^ Persons connected with directors.

Statement Of Directors' Shareholdings

	No. of ordinary Shares			
Directors' Name	**Direct**	**%**	**Indirect**	**%**
Dato' Hasan bin M. Taib	3,000,000	2.29	-	-
Choong Kai Soon	-	-	77,367,234*	59.13
Choong Kai Fatt	-	-	76,968,634*	58.83
Choong Khoi Onn	760,000	0.58	76,968,634*	58.83
Choong Kay Cheong	2,508,000	1.92	76,968,634*	58.83
Leou Thiam Lai	-	-	-	-
Datuk Zainun Aishah binti Ahmad	-	-	-	-
Dato' Koh Hong Sun	-	-	-	-

* Deemed interested by virtue of his direct/indirect shareholdings in Legion Master Sdn. Bhd.
# Deemed interest through his spouse's shareholding by virtue of Section 59(11)(c) of the Companies Act, 2016.

Properties of The Group

The Landed Properties of DeGem Group are as follows:

Registered Owner	Description	Location	Date of Acquisition	Exixting Use	Tenure	Total Area sq.ft	Age of Building (Years)	NBV @ 31.12.2018
P.Y.T Jewel & Time Sdn Bhd	One Six Storeys Shop Office Located at 10 Boulevard, Damansara	No. B-G-30 Block B, 10 Boulevard, Damansara, Jalan Cempaka Kg. Sg. Kayu Ara 47400 Petaling Jaya Selangor.	31.07.2008	Investment Property	99 years Leasehold	20,303	11	5,544,000
Diamond Mart Sdn Bhd	Two Continuous Three Storeys Mid Terraced Shop Offices	No. 40 & 42, Jalan Maarof, Bangsar Baru, 59100 KL	21.02.2001	Boutique and Office	Freehold	2,040 each	25	6,761,110
	One Single Storey Bungalow	No.20, Jalan 1/4 Old Town, 46000 Petaling Jaya, Selangor.	30.11.2011	Investment Property	99 years Leasehold	4,168	54	169,119
Telenaga Sdn Bhd	Two Continuous Three Storeys Mid Terraced Shop Offices	No. 44 & 46, Jalan Maarof, Bangsar Baru, 59100 KL	19.11.1998	Boutique and Office	Freehold	2,040 each	25	4,061,923
	Office Suite	16-1, Menara 1MK, Komplek '1 Mont Kiara', No.1, Jalan Kiara, Mont Kiara, 50480 Kuala Lumpur	01.08.2017	Office	Freehold	1,448	12	945,254
DeGem Prestige Sdn Bhd	4 1/2 Storey Shophouse Leasehold Land - 70% Leasehold Buildings -30%	No.100, Lorong Mamanda 2, Taman Dato Ahmad Razali 68000 Ampang, Selangor	30.04.2006	Boutique	99 years Leasehold	1,650	30	2,075,167
Tong Yek Jewellers Sdn Bhd	Two Continuous Commercial Lots Located on the Ground Floor of Wisma Punca Emas	No.G14 and G22, Wisma Punca Emas, Jalan Yam Tuan, Seremban	30.03.1985	Investment Property	Freehold	394	33	1

The Landed Properties of DeGem Group are as follows:

Registered Owner	Description	Location	Date of Acquisition	Exixting Use	Tenure	Total Area sq.ft	Age of Building (Years)	NBV @ 31.12.2018
Diamond & Platinum Sdn Bhd	3 1/2 Storey Shop Office	Unit E2-02A(E/1-48), Block E, Jalan PJU1A/3M, Taipan Damansara, 47301 Petaling Jaya, Selangor.	03.01.2011	Warehouse	Freehold	1,647	9	882,000
	A unit of Small Office Flexible Office	Lot No.B-22-10, Phase 2D02 Bandar Setia Alam.	14.12.2011	Hostel	Freehold	788	5	427,378
	One Single Storey Bungalow	47, Jalan Maarof, Bangsar, 59100, Kuala Lumpur.	01.04.2014	Investment Property	Freehold	6,458	27	6,523,074
	One Single Storey Bungalow	49, Jalan Maarof, Bangsar, 59100, Kuala Lumpur.	06.02.2015	Investment Property	Freehold	6,631	6	8,071,110
Inticraft Sdn Bhd	Semi-Detached Showroom Factory	Unit No.9, Lorong Teknologi C, Taman Sains Selangor 1, PJU 5, Kota Damansara 47810 Petaling Jaya Selangor	26.02.2013	Factory	99 years Leasehold	8,379	6	4,140,412
	3-Storey Apartment with 8 units	Lot 303, (No.6) Lengkok Abdullah Off Jalan Abdullah Bangsar, 59000 Kuala Lumpur	15.05.2013	Hostel	Freehold	10,086	6	5,243,864
DeGem International Pte Ltd	One unit of Condominium	806, Thomson Road, #15-09, Singapore 298189	28.07.2011	Investment Property	Freehold	1,399	19	4,668,596
								49,560,637

Directory of DeGem Group Showrooms

DeGem

www.degemdiamond.com

Kuala Lumpur

1. Bangsar Baru
No. 40-46
Jalan Maarof
Bangsar Baru
59100 Kuala Lumpur
Tel: 03-2282 3618
Fax: 03-2282 4960

2. Pavilion
Lot 3.02, Level 3
The Pavilion Kuala Lumpur
168 Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: 03-2141 1199
Fax: 03-2142 8180

3. The Gardens
G-213B, Ground Floor
The Gardens Mall
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Tel: 03-2283 2618
Fax: 03-2282 9618

Selangor

4. 1 Utama Shopping Complex Selangor
G302, GF, 1 Utama Shopping Centre (Phase 2A)
No.1, Lebuh Bandar Utama
47800 Petaling Jaya
Selangor
Tel: 03-7725 8218
Fax: 03-7725 8217

5. Ampang Point Selangor
No. 99-100, Lorong Mamanda 2
Taman Dato' Ahmad Razali
68000 Ampang
Selangor
Tel: 03-4256 2227
Fax: 03-4256 2766

Singapore

6. The Shoppes At Marina Bay Sands
01-03/04
1 Bayfront Avenue
Marina Bay Hotel Tower
Singapore 018971
Tel: 65-6688 7032
Fax: 65-6688 7033

www.diamondnplatinum.com

Kuala Lumpur

1. **Mid Valley Megamall**
Lot No G-068, Ground Floor
South Court, Mid Valley Megamall
Mid Valley City, 58200 Kuala Lumpur
59100 Kuala Lumpur
Tel: 03-2938 3478

Selangor

2. **Sunway Pyramid**
Lot G1.133, Ground Floor
Sunway Pyramid Shopping Mall
No. 3, Jalan PJS11/15
Bandar Sunway
46150 Petaling Jaya
Selangor
Tel: 03-7492 2478

3. **1 Utama Shopping Centre**
Lot F128 & F129, 1st Floor
1 Utama Shopping Centre
No.1, Lebuh Bandar Utama Damansara
47800 Petaling Jaya
Selangor
Tel: 03-7725 3478

4. **The Curve Mutiara Damansara**
Lot G59 & G60, Ground Floor
The Curve, Jalan PJU 7/3
Mutiara Damansara
47800 Petaling Jaya
Selangor
Tel: 03-7728 2478

5. **AEON Bukit Tinggi Shopping Centre**
Lot G60, Ground Floor
Aeon Bukit Tinggi Shopping Centre
No.1, Persiaran Batu Nilam, 1/KS6
Bandar Bukit Tinggi
41200 Klang
Selangor
Tel: 03-3326 2478

6. **Subang Parade**
Lot G18,Ground Floor, Subang Parade
No 5, Jalan SS16/1
47500 Subang Jaya
Selangor
Tel: 03-5635 3478

7. **Setia City Mall**
UG-13 Setia City Mall
No.7 Persiaran Setia Dagang
Sek U13, 40170 Setia Alam
Selangor
Tel: 03-3345 6478

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Johor

8. **Paradigm Mall**
UG-41A, Paradigm Mall Johor Bahru
Jalan Skudai
81200 Johor Bahru, Johor
Tel: 07-234 0478

9. **The Mall, Mid Valley Southkey**
G-035, Ground Floor
No. 1 Persiaran Southkey
80150 Johor Bahru
Tel : 607-336 5478

Penang

10. **Queensbay Mall**
Lot 107 & 108, Ground Floor
Queensbay Mall
100 Persiaran Bayan Indah
Sungai Nibong
11900 Penang
Tel: 04-642 2478

11. **Gurney Plaza**
170-G-47B, Ground Floor
Plaza Gurney
Persiaran Gurney
10250 Penang
Tel: 04-226 3478

Perak

12. **Ipoh Parade**
Lot G32, Ground Floor
Ipoh Parade
105 Jalan Sultan Abdul Jalil
Greentown
30450 Ipoh, Perak
Tel: 05-242 3478

Brunei

13. **Abdul Razak Complex**
Lot G-05 & 06, Ground Floor
The Mall, Abdul Razak Complex
Gadong BE3519
Brunei Darussalam
Tel: +673-242 8478

www.jeoel.com

Kuala Lumpur

1. **Sunway Velocity Mall**
Unit G-46, Ground Floor
Sunway Velocity Mall
Lingkaran SV, Sunway Velocity
55100 Kuala Lumpur
Tel: 03-9286 7210

2. **MyTown Shopping Centre**
LOT G-040, Ground Floor,
MyTown Shopping centre,
Jalan Cochrane, Maluri,
55100 Kuala Lumpur
Tel: 03- 9226 6478

Selangor

3. **1 Utama Shopping Centre**
Lot F213a, First Floor
1 Utama Shopping Centre
Lebuh Bandar Utama, Bandar Utama
47800 Petaling Jaya
Selangor
Tel: 03-7733 1650

4. **Sunway Pyramid**
Lot LG1.02A, Lower Ground One
Sunway Pyramid Shopping Mall
No 3, Jalan PJS11/15 Bandar Sunway
46150 Petaling Jaya
Selangor
Tel: 03-5613 0080

5. **IPC Shopping Center**
G.25, Ground Floor
IPC Shopping Center
No. 2, Jalan PJU 7/2, Mutiara Damansara
47800 Petaling Jaya
Selangor
Tel: 03-7731 8031

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DEGEM BERHAD (415726-T)
(Incorporated in Malaysia)

Proxy Form

I/We ____
(FULL NAME AS PER NRIC / CERTIFICATE OF INCORPORATION IN CAPITAL LETTERS)

_________________________________Company No./NRIC No.(new)_________________________(old)_________________________

of____
(FULL ADDRESS)

being a member(s) of DEGEM BERHAD hereby appoint:

_______________________________________NRIC No (new).__________________________(old).____________________________

or failing him/her,______________________________NRIC No. (new) ______________________(old).____________________________

or failing him/her, the Chairman of the Meeting as *my/our proxy to vote for *me/us on *my/our behalf at the 22nd Annual General Meeting of the Company to be held at RG Dining, Level R, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Wednesday, 12 June 2019 at 10.30 a.m. and at any adjournment thereof.
(strike out whichever is not desired)*

The proportions of my/our holdings to be represented by my/our proxy(ies) are as-follows :-
Proxy 1 %
Proxy 2 _______ %
100 %

(Should you desire to direct your Proxy as to how to vote on the Resolutions set out in the Notice of Meeting, please indicate an "X" in the appropriate space. Unless otherwise instructed, the proxy may vote or abstain from voting at his discretion.)

NO.	RESOLUTIONS	FOR	AGAINST
1.	Ordinary Resolution 1 - Re-election of Mr. Choong Kai Soon as Director		
2.	Ordinary Resolution 2 - Re-election of Mr. Choong Kay Cheong as Director		
3.	Ordinary Resolution 3 -To approve the payment of Directors' fees for the financial year ended 31 December 2018		
4.	Ordinary Resolution 4 -To approve the payment of Directors' benefits		
5.	Ordinary Resolution 5 - To re-appoint Baker Tilly Monteiro Heng PLT as Auditors of the Company and to authorise the Directors to fix their remuneration		
6.	Ordinary Resolution 6 - Authority to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act, 2016		
7.	Ordinary Resolution 7 - Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature		
8.	Ordinary Resolution 8 - Proposed Renewal of Share Buy-Back Authority		
9.	Ordinary Resolution 9 - Continuing in Office of Mr. Leou Thiam Lai as Independent Non-Executive Director		
10.	Ordinary Resolution 10 - Continuing in Office of Datuk Zainun Aishah binti Ahmad as Independent Non-Executive Director		
11.	Special Resolution – Proposed Adoption of the New Constitution of the Company		

Signed this............................day of..........................., 2019

No. of Shares Held:	
CDS Account No.:	
Tel. No. (during office hours):	

....
Signature/Common Seal of Member(s)

Notes:
1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint up to two (2) proxies to attend and vote instead of him/her. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.

2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositors) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account. The appointment of two (2) or more proxies in respect of any particular securities account shall be invalid unless the authorised nominee specifies the proportion of its shareholding to be represented by each proxy.

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

4. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.

5. The Proxy Form must be deposited at the Share Registrar's Office, Boardroom Share Registrars Sdn. Bhd. (Formerly known as Symphony Share Registrars Sdn. Bhd.) at Level 6, Symphony House, Pusat Dagangan Dana 1, Jalan PJU Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor not less than forty-eight (48) hours before the time set for the meeting or any adjournment thereof.

6. Pursuant to Paragraph 8.29A (1) of the Main Market Listing Requirements of Bursa Securities, all the Resolutions set out in this Notice will be put to vote by poll.

7. **General Meeting Record of Depositors**
For purposes of determining who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 54(c) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 4 June 2019 and a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his stead.

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Affix
Stamp
Here

Share Registrar

Boardroom Share Registrars Sdn. Bhd.
(Formerly known as Symphony Share Registrars Sdn Bhd)
Level 6, Symphony House,
Pusat Dagangan Dana 1,
Jalan PJU 1A/46,
47301 Petaling Jaya,
Selangor.

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DeGem Berhad (415726-T)

**No. 42 First Floor,
Jalan Maarof, Bangsar Baru,
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Email : info@degembhd.com**

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