

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“**the Board**”) of the Company believes that good Corporate Governance provides a firm indication on the level of commitment of the Board in achieving the highest standards of professionalism and business ethics across the Company’s activities.

The Board noted that the goal of good corporate governance is to establish an effectively organised management structure and system that will enable the Company to meet the needs and expectation of its stakeholders.

The Company and its subsidiaries (“**The Group**”) are fully committed to business integrity, transparency and professionalism whilst pursuing their corporate objectives to enhance shareholders’ value and their overall competitive positioning. As part of this commitment, the Board recognises the importance of governance and plays an active role in administering and reviewing the Group’s governance practices and framework to ensure its relevance and ability to meet future challenges.

The Board is pleased to present this Corporate Governance Overview Statement (“**Statement**”) to provide investors with an overview of the extent of compliance with three (3) Principles as set out in the Malaysian Code on Corporate Governance 2017 (“**MCCG**”) under the stewardship of the Board.

This Statement also serves as a compliance with Paragraph 15.25 of the Main Market Listing Requirements (“**Main LR**”) of Bursa Malaysia Securities Berhad (“**Bursa Securities**”). In addition, the Corporate Governance Report (“**CG Report**”) which sets out the application of each Practice is available for viewing in The Group’s corporate website at www.vsteecs.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

(1) Board Responsibilities

Intended Outcome 1.0

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

(i) Roles and Responsibilities of the Board

The Board is responsible for the overall corporate governance, strategic direction, corporate goals and therefore monitors the achievement of these goals. It provides effective leadership and manages overall control of The Group’s affairs through the discharge of the following principal duties and responsibilities:-

(a) Reviewing and adopting a strategic plan for the Company

The Board plays an active role in the development of The Group’s strategic plan. It has in place a strategic plan whereby Management updates the Board on the progress of implementation of the strategic plan regularly. Mr. Soong Jan Hsung (“**Mr. Soong**”), the Chief Executive Officer (“**CEO**”) updates the Board on the progress of the implementation of the strategic initiatives by the Management at every quarterly Board Meetings.

In those sessions, the Board reviews and deliberates on Management’s progress towards achieving the strategic initiatives, as well as providing guidance to Management’s methods to deliver the best outcomes.

(b) Overseeing the conduct of the Company’s business

The Board monitors the performance of Management on a regular basis by having the following regular agenda item in the Board Meetings which is “*Group Performance Review for the Current Quarter ended and Current Year-to-date*”.

For the FY2018, Mr. Soong was responsible for presenting the above agenda item to the Board for review and consideration.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(1) Board Responsibilities *cont'd*

(i) *Roles and Responsibilities of the Board* *cont'd*

(c) **Identification of principal risks and implementation of appropriate internal control and mitigation measures**

Mindful of its duties in terms of identification of principal risks as well as the need to institute risk management and internal control measures, the Board has adopted an Enterprise Risk Management (“ERM”) Framework to manage its risk and opportunities.

A Management Committee known as the ERM Committee, which reports directly to the Audit Committee (“AC”), was established by the Board with the primary responsibility of ensuring the effective functioning of the adopted ERM Framework.

The ERM Committee advises the AC and the Board on a regular basis on areas of high risk and the adequacy of compliance and control procedures throughout The Group.

For the FY2018, there were four (4) ERM Meetings conducted to review all the risk inputs given through all quarters of the year for all risks together with the impact recorded for risk-ranking purpose. The ERM Committee had also attended and worked on to the risk elements reference as requested by the Internal Auditors.

(d) **Succession Planning**

One of the most fundamental components of good corporate governance is the establishment of an effective company hierarchy.

The Board, with the assistance of the Nominating Committee and working with the CEO and Human Resource department, oversees executive officers development and corporate succession plans for the CEO and other executive officers to provide for continuity in senior management.

The Board recognises that succession planning is an ongoing process designed to ensure that The Group identifies and develops a talent pool of employees through mentoring, training and job rotation for high level management positions that become vacant due to retirement, resignation, death or disability and/or new business opportunities.

Mr. Foo Sen Chin (“**Mr. Foo**”) was elected as the Executive Chairman on 1 January 2015 following the appointment of Mr. Soong as the Executive Director/CEO on the same day. The Board had adopted a phased approach where Mr. Foo would be gradually relinquishing his executive roles to the CEO as part of the orderly succession planning process. On 1 January 2018, Mr. Foo has been re-designated as the Non-Executive Chairman of VSTECs Berhad with effect from 1 January 2018.

In compliance with Guidance 1.1 of the MCCG, the Board has formalised a Succession Planning Policy to ensure The Group’s continuity in leadership for all key positions. This Policy has outlined the measures in place as well as the development processes for the orderly succession of senior management personnel.

A copy of this Policy is available for viewing under the “Corporate Governance” section of The Group’s corporate website at www.vstecs.com.my.

(e) **Overseeing the development and implementation of a shareholder communications policy for the company**

In compliance with Guidance 1.1 of the MCCG, the Board has adopted a Corporate Disclosure Policy which includes, amongst others, a dedicated Investor Relations (“IR”) section which serves as a guide for the Board to oversee the development of an effective IR programme and strategy to communicate the corporate vision and mission, strategies, development, financial plans and prospects to investors, the financial community and other stakeholders and accurately and to obtain feedback from the stakeholders.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(1) Board Responsibilities *cont'd*

(i) Roles and Responsibilities of the Board *cont'd*

(f) **Reviewing the adequacy and the integrity of The Group's internal control systems and management information systems**

The Board has established key control processes to ensure that there is a sound framework of reporting on internal controls and regulatory compliance.

The Statement on Risk Management and Internal Control of The Group as set out on pages 70 to 72 of this Annual Report, provides an overview of the state of risk management and internal controls within The Group.

(ii) **Key Responsibilities of the Chairman of the Board ("Chairman")**

The role and responsibilities of the Chairman have been clearly specified in Paragraph 5.2 of the Board Charter.

Mr. Foo is the current Chairman and he is primarily responsible for:-

- leading the Board in the oversight of management;
- representing the Board to shareholders and to chair and to ensure the efficient organisation and conduct of the Board and/or meeting of the shareholders;
- ensuring the integrity of the governance process and issues;
- maintaining regular dialogue with the CEO over all operational matters and consulting with the remainder of the Board promptly over any matters that gives him/her cause for major concern;
- ensuring that Executive Directors look beyond their executive function and accept their share of responsibilities in governance;
- guiding and mediating Board actions with respect to organisational priorities and governance concerns; and
- performing other responsibilities assigned by the Board from time to time.

(iii) **Separation of the positions of the Chairman and Chief Executive Officer**

The Board recognises the importance of having a clearly accepted division of roles and responsibilities at the head of The Group to ensure a balance of power and authority.

The re-designation of Mr. Foo as Non-Executive Chairman of VSTECS Berhad with effect from 1 January 2018 marked the full transition of the remaining executive functions from the Board Chairman to the CEO.

For FY2018, Mr. Foo, the Non-Independent Non-Executive Chairman, provides strong leadership and objective judgement with regard to ensuring the adequacy and effectiveness of the Board's governance process.

Whereas Mr. Soong, the CEO in essence is to ensure the effective implementation of The Group's Business Plan and policies established by the Board as well as to manage the daily conduct of the business and affairs to ensure its smooth operation.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(1) Board Responsibilities *cont'd*

(iii) Separation of the positions of the Chairman and Chief Executive Officer *cont'd*

The Board is of the view that the separation of the positions of the Chairman and the CEO together with the Independent Directors, provides further assurance that there is a balance of power and authority on the Board and effective stewardship of The Group in terms of strategies and business performance.

The roles of the Chairman and the CEO are clearly demarcated and defined in the Board Charter of the Company and is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

(iv) Company Secretaries

In compliance with Practice 1.4 of the MCCG, the Board is supported by two (2) suitably qualified and competent Company Secretary as follows:-

- Ms. Chua Siew Chuan, FCIS
- Mr. Cheng Chia Ping, ACIS

Both the Company Secretaries are members of the Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA") and are qualified to act as company secretary under Section 235(2) of the Companies Act 2016 ("CA 2016"). Details of the qualifications and experience of the Company Secretaries are set out in Item 1.4 of the CG Report, available for viewing in The Group's corporate website at www.vstecs.com.my.

For FY2018, the Company Secretaries have attended the relevant continuous professional development programmes as required by MAICSA for practising company secretaries. Both the Company Secretaries possessed a valid Practising Certificate issued by MAICSA for FY2018.

The appointment and removal of the Company Secretaries is a matter for the Board. All Directors have access to the advice and services of the Company Secretaries, who are responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Moreover, the Company Secretaries ensure that the deliberations at the Board meetings are well captured and minuted. The Company Secretaries also play a key role to facilitate communication between the Board and Management.

In performing their duties, the Company Secretaries carry out, amongst others, the following tasks:-

- Statutory duties as required under the CA 2016, Main LR of Bursa Securities and Capital Market and Services Act 2007;
- Facilitating and attending Board Meetings and Board Committee Meetings, respectively;
- Ensuring that Board Meetings and Board Committee Meetings, respectively are properly convened and the proceedings are properly recorded;
- Ensuring timely communication of the Board level decisions to the Management for further action;
- Ensuring that all appointments to the Board and/or Board Committees are properly made in accordance with the relevant regulations and/or legislations;
- Maintaining records for the purpose of meeting statutory obligations;
- Facilitating the payment of Directors' Fees to the Non-Executive Directors;
- Facilitating the provision of information as may be requested by the Directors from time to time and ensuring adherence to Board policies and procedures;
- Facilitating the conduct of the assessments to be undertaken by the Board and/or Board Committees as well as to compile the results of the assessments for the Board and/or Board Committee's notation;
- Assisting the Board with the preparation of announcements for release to Bursa Securities and Securities Commission Malaysia ("SC"); and
- Rendering advice and support to the Board and Management.

For FY2018, the Board is satisfied with the performance and support rendered the Company Secretaries to the Board in discharging its functions.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(1) Board Responsibilities *cont'd*

(v) Circulation of meeting materials

As a standing practice, the notice of the Board Meetings is served at least seven (7) days before each Board Meetings. In compliance with Practice 1.5 of the MCCG as well as Board Charter of the Company, Board papers and agenda items are to be circulated in electronic form via e-mail at least seven (7) days prior to the Meetings to allow ample time for Directors to consider the relevant information.

Comprehensive meeting papers comprising background, matters arising, research, analysis, findings/updates, results, presentations, recommendations and any other relevant information are prepared and circulated in advance to enable the Board to make considerations, deliberations and decisions.

Minutes of the Board Meetings have been accurately recorded by the Company Secretaries to reflect the deliberations, in terms of the issues discussed, and the conclusions thereof in discharging its duties and responsibilities. The Minutes were then tabled at the next following Board Meeting for perusal and confirmation. Upon Directors' confirmation, the Chairman of the Board Meeting signs the minutes as a correct record of the proceedings and thereafter, the said minutes of all proceedings are kept in the statutory book at the registered office of the Company to be made available for inspection under the CA 2016.

Intended Outcome 2.0

There is a demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

(vi) Board Charter

In compliance with Practice 2.1 of the MCCG, the Board has adopted a Board Charter which governs how the Board conducts its affairs. The Board Charter is applicable to all Directors of the Company and, amongst other things, provides for that all Directors must avoid conflicts of interest between their private financial activities and their part in the conduct of company business.

The Board Charter sets out the authority, responsibilities, membership and operation of the Board of The Group's, adopting principles of good corporate governance and practice, in accordance with applicable laws in Malaysia. The Board Charter entails, inter alia, the following main items:-

- Objectives of the Board;
- Role of Board;
- The Board Structure; and
- The Board Processes.

The Board Charter is to be regularly reviewed by the Board as and when required. During FY2018, The Board has reviewed the Board Charter.

A copy of the Board Charter is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

Intended Outcome 3.0

The Board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(1) Board Responsibilities *cont'd*

(vii) Code of Conduct

One of the key roles of the Board is to promote good business conduct which engenders integrity, transparency and fairness that permeates throughout The Group. Consequently, the Board has formalised the following Codes in compliance with Practice 3.1 of the MCCG to ensure the implementation of appropriate internal systems for the Management to support, promote and ensure its compliance:-

(a) Directors' Code of Ethics

This Code is formulated for the Board and every Director to be committed on areas of ethical risk; to provide guidance to Directors to help them recognise and deal with ethical issues; to provide mechanisms to report unethical conduct and to help foster a culture of honesty and accountability.

This Code is designed to enhance the standard of corporate governance and corporate behaviour with the intention of, amongst others to uphold the spirit of professionalism, objectivity, transparency, and accountability in line with the legislation, regulations and environmental and social responsibility guidelines governing a company.

A copy of this Code is available for reviewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

(b) VSTECS's Code of Conduct

This Code is established to promote a corporate culture which engenders ethical conduct that permeates throughout The Group.

This Code established the guidelines and expectations on the identified stakeholders on various pertinent issues and their expected course of action(s).

All Directors, management and employees of The Group are to adhere to this Code and comply with the letter and spirit of the following items:-

- (i) Human Rights;
- (ii) Health and Safety;
- (iii) Environment;
- (iv) Gifts and Business Courtesies;
- (v) Anti-Corruption;
- (vi) Anti-Money Laundering;
- (vii) Company Records and Internal Controls;
- (viii) Company Assets;
- (ix) Exclusive Service;
- (x) Integrity and Professionalism;
- (xi) Personal Appearance;
- (xii) Confidential Information; and
- (xiii) Compliance Obligations.

A copy of this Code is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

(c) Whistle-Blowing Policy

Whistle-blowing is an act of voluntary disclosure/reporting to the Management of The Group for further action of any improper conduct committed or about to be committed by an employee, officer or management of The Group.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(1) Board Responsibilities *cont'd*

(vii) Code of Conduct *cont'd*

(c) Whistle-Blowing Policy *cont'd*

As guided by Guidance 3.2 of the MCCG, the Board has adopted a Whistle-Blowing Policy with the following objectives:-

- Provide an avenue for all employees and members of the public to disclose any improper conduct or action that is or could be harmful to the reputation of The Group and/or compromise the interest or stakeholders;
- Provide proper internal reporting channel to disclose any improper or unlawful conduct in accordance with the procedures as provided for under this policy;
- Address a disclosure in an appropriate and timely manner;
- Provide protection for the whistle-blower from reprisal as a direct consequence of making a disclosure and to safeguard such person's confidentiality; and
- Treat both the whistle-blower and the alleged wrongdoer fairly.

This Policy shall also similarly apply to any vendors, partners, associates or any individuals, including the general public, in the performance of their assignment or conducting the business for or on behalf of The Group.

A copy of this Policy is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

Handling of Reported Allegation(s)

The Audit Committee is responsible for the interpretation and supervision of the enforcement of this Policy. The action to be taken by The Group in response to a report of concern under this Policy will depend on the nature of the concern. The Audit Committee shall receive information on each report of concern and ensure that follow-up actions be taken accordingly.

Communication and Feedback Channels

In general, whistle blowers are expected to utilise the appropriate channels provided, prior to making public statements (as a last resort measure).

In line with the advent of technology and electronic communications, report(s) can now be made in verbal or in writing/e-mail and forwarded in a sealed envelope to the below mentioned designated person(s) labelling with a legend such as "To be opened by the Audit Committee Chairman/Non-Executive Chairman/GEO or Head of Human Resources only" (where applicable):-

For matters relating to financial reporting, unethical or illegal conduct, one can report directly to the following designated persons:-

- (1) **Audit Committee Chairman**
Mr. Wong Heng Chong at e-mail address: hengchong.wong@gmail.com; or
- (2) **Non-Independent Non-Executive Chairman**
Mr. Foo Sen Chin at e-mail address: scfoo@vstecs.com.my; or
- (3) **Chief Executive Officer**
Mr. Soong Jan Hsung at e-mail address: jhsoong@vstecs.com.my

For employment-related concerns, one can report directly to the following designated persons:-

- (1) **Head of Human Resources**
Ms. Shirley Yee at e-mail address: cyyee@vstecs.com.my; or
- (2) **Chief Executive Officer**
Mr. Soong Jan Hsung at e-mail address: jhsoong@vstecs.com.my

For FY2018 and up to the date of this Statement, none of the abovementioned designated persons have received any report on matters/concerns under their respective purview.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition

Intended Outcome 4.0

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

(i) Board Composition

For FY2018, the Board of the Company consists of eight (8) members comprising one (1) Executive Director and seven (7) Non-Executive Directors, of whom four (4) are Independent and therefore the prescribed requirement for one third of the membership of the Board to be independent Board members is fulfilled. This also applies to Practice 4.1 of the MCCG where at least half of the Board comprises independent directors. This independent element brings an objective and independent judgement to the decision-making process of the Board. The biographical details of the Board members are set out in the Directors' Profile section on pages 18 to 25 of this Annual Report.

The Board structure ensures that no individual or group of individuals dominates the Board's decision-making process. The composition of the Board provides an effective blend of entrepreneurship, business and professional expertise in general management, finance, corporate affairs, legal and technical areas of the industry in which The Group operates. The individuality and vast experience of the Directors in arriving at collective decisions at board level will ensure impartiality.

The Board has put in place the following Board Committees to assist in carrying out its fiduciary duties:-

- Audit Committee;
- Nominating Committee; and
- Remuneration Committee.

All of these Committees have written Terms of Reference clearly outlining their objectives, duties and powers. The final decisions on all matters are determined by the Board as a whole.

(ii) Tenure of Independent Directors

The Board is mindful that the tenure of an independent director should not exceed a cumulative term of nine (9) years unless it is recommended by the Nominating Committee and the Board is then satisfied that he or she is able to continue to bring independent judgement to the Board's deliberations.

The Board shall provide justifications and seek shareholders' approval in the event it proposes to retain an independent director who has served the Board in that capacity for more than nine (9) years.

Presently, Ms. Ho Chee Kit ("**Ms. Ho**") and Encik Ahmad Subri Bin Abdullah ("**En. Subri**") are the Independent Non-Executive Directors of the Company who have served the Board for nine (9) years.

The Nominating Committee noted that Ms. Ho and En. Subri will reach the nine (9) years limit as an Independent Director of the Company from 15 April 2019 onwards and upon assessment, the NC opined that both should be retained as Independent Non-Executive Directors of the Company based on the following justifications:

The Board of Directors has via the Nominating Committee conducted an annual performance appraisal and assessment of Ms. Ho and En. Subri who have served as Independent Non-Executive Director since the listing date of the Company on 15 April 2008. The Board considers them to be independent and the recommendation was made based on the following justifications:-

- (i) Ms. Ho and En. Subri have met the independent guidelines set out in Chapter 1 of Main LR of Bursa Securities.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

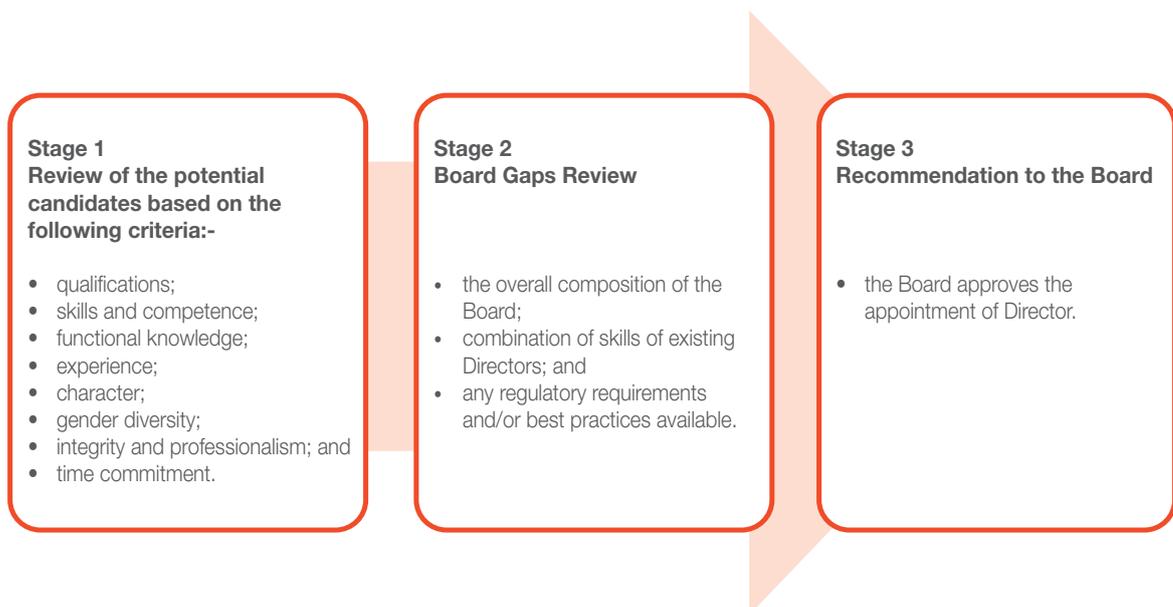
(ii) Tenure of Independent Directors *cont'd*

- (ii) Ms. Ho and En. Subri have been with the Company for nine (9) years and therefore they fully understand the business operations of the Company and appreciate the emerging trends and challenges faced by The Group.
- (iii) Drawing on their respective diverse expertise/experience, Ms. Ho and En. Subri actively participate and contribute to the discussion and deliberation of the Board and Board Committees. They have diligently attended all of the meetings held for the Board and Board Committees for the financial year ended 31 December 2018.
- (iv) Ms. Ho and En. Subri have exercised due care and diligence during their tenure as Independent Non-Executive Directors.
- (v) Both have devoted sufficient time commitment by serving not only on the Board, but also at Board Committees. Ms. Ho, as the Senior Independent Non-Executive Director, chaired the Nominating Committee while serving as a member of Audit Committee and Remuneration Committee. Meanwhile, Encik Subri chaired the Remuneration Committee, while also served as a member of Audit Committee and Nominating Committee.

The Board, being satisfied with the justifications and criteria met by Ms. Ho and En. Subri, shall be seeking the shareholders' approval at this forthcoming Twenty-Third Annual General Meeting of the Company to retain Ms. Ho and En. Subri as Independent Non-Executive Directors of the Company.

(iii) Appointment of the Board and Senior Management

A three-staged review process for the appointment of the Director is as follows:-



For financial year ended 31 December 2018, the Nominating Committee has not sourced for any potential candidate for recruitment as Board member using the identified selection criteria as stipulated in the Directors' Assessment Policy.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

(iv) Board Diversity

The Board affirms its commitment to boardroom diversity as a truly diversified Board can enhance the Board's effectiveness, creativity and capacity to thrive in good times and weather tough times.

Bearing in mind that an appointment to the Board is a long term commitment to the Company, the Board has not set any quick-fix target or measure for boardroom diversity but nevertheless works to ensure that there is no discrimination on the basis of, but not limited to, ethnicity, race, age, gender, nationality, political affiliation, religious affiliation, sexual orientation, marital status, education, physical ability or geographic region, during the recruitment of new Board members.

Gender Diversity

For FY2018 till the date of this Statement, the Board currently consists of two (2) female directors who are as follows:-

- (a) Ms. Ho, a Senior Independent Non-Executive Director, serves as the Chairperson of Nominating Committee, as well as a member of the Audit Committee and Remuneration Committee; and
- (b) Ms. Chow Ying Chi ("**Ms. Chow**"), a Non-Independent Non-Executive Director, has been appointed as a member of the RC on 21 February 2019.

The Nominating Committee is guided by the Board Diversity Policy to review and assess the Board's composition and to consider the benefits that flow from diversity and to appoint candidates based on merit and without prejudice. The Nominating Committee has also undergone a three-staged review process by reviewing the potential candidates based on the particular criteria, Board Gaps Review and Recommendation to the Board.

In this regard, the percentage of Board's gender diversity for FY2018 remained at 25%.

Bearing in mind that an appointment to the Board is a long term commitment to the Company and upon assessment for FY2018, the Board opined that the current Board number was at optimum level taking into consideration the size and scale of business operations of the Company. Should the Board decides otherwise in the future which will require the appointment of additional Board members, the Board hereby affirms that due consideration on gender diversity would be one of the assessment criteria during the Stage 1 Review Process.

Ethnicity Diversity

En. Subri, an Independent Non-Executive Director of Malay descent, serves as the Chairman of the Remuneration Committee as well as a member of the Audit Committee and Nominating Committee, respectively.

Age Diversity

The Board believes that the Directors with younger age profile will be able to provide a different perspective and bring vibrancy to The Group's strategy making process.

While the general age profile of the majority of the Directors were above sixty years of age, the CEO, Mr. Soong is 55 years of age; while Mr. Ong Wei Hiam and Ms. Chow, the Non-Independent Non-Executive Directors, are 47 and 50 years of age, respectively which underlines the Board's commitment to age diversity at the Board level appointment.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

(iv) Board Diversity *cont'd*

Geographical Diversity

The Board believes that its composition of Board members of various nationality and expertise/Pan-Asian market experiences greatly enhanced its thought process in strategy making and decision-making process. With its members possessing Pan-Asian market experience in Singapore, Hong Kong and China, the Board can have a better outlook on the trends and development on various jurisdictions in which the VSTECS Group were operating.

Consequent to the New MCGG, the Board Diversity Policy has been revised and updated by the Board on 19 March 2018.

An updated copy of this Policy is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vsteecs.com.my.

(v) Nominating Committee

The Nominating Committee is chaired by Ms. Ho, a Senior Independent Non-Executive Director identified by the Board and assumed the role of "Senior Independent Non-Executive Director" since 21 May 2015.

The Nominating Committee is governed by the Terms of Reference ("TOR") of the Nominating Committee. A copy of this TOR is available for reviewing under the "Corporate Governance" section of The Group's corporate website at www.vsteecs.com.my.

For FY2018, the Nominating Committee comprises exclusively of Non-Executive Directors, majority being Independent Non-Executive Directors, i.e. four (4) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director as follows:-

Nominating Committee	Number of Nominating Committee Meetings attended/held in the financial year under review
Ho Chee Kit (<i>Chairperson</i>)	1/1
Ahmad Subri Bin Abdullah (<i>Member</i>)	1/1
Wong Heng Chong (<i>Member</i>)	1/1
Ong Wei Hiam (<i>Member</i>)	1/1
Tay Eng Hoe (<i>Member</i>)	1/1

The Nominating Committee met one (1) time during the financial year under review for undertaking the following activities:-

- (a) Conducted the online assessment of the Audit Committee Member's Self and Peers and the effectiveness of the Audit Committee as a whole;
- (b) Conducted the online assessment of the Board Members' Self and Peers;
- (c) Conducted the online assessment of the Board, the Committees of the Board and the contribution of the CEO and Non-Executive Chairman;
- (d) Assessed the size and composition of the Board and Board Committees;
- (e) Reviewed the adequacy of the Board;
- (f) Reviewed the independence of the Independent Directors;
- (g) Reviewed and recommended to the Board, the re-election of the Directors who will be retiring at the forthcoming annual general meeting ("**AGM**") of the Company;
- (h) Reviewed the attendance of the Board Members at Board and Board Committees Meetings;
- (i) Reviewed the Directors' training programmes attended by the Board of Directors; and
- (j) Reviewed the TOR of Nominating Committee.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

(v) Nominating Committee *cont'd*

Directors' Time Commitment

The Board requires its members to devote sufficient time to the workings of the Board, to effectively discharge their duties as Directors of the Company, and to use their best endeavours to attend meetings, regardless of their principal place of residence. This time committed also forms one of the criteria for determining the quantum of the meeting allowance payable to the Board members.

For FY2018, the Board had convened a total of four (4) Board Meetings for the purposes of deliberating on The Group's quarterly financial results at the end of every quarter and discussing important matters which demanded immediate attention and decision-making. During the Board Meetings, the Board reviewed the operation and performance of The Group and other strategic issues that may affect The Group's business. Relevant employees were invited to attend some of the Board Meetings to provide Board with their views and clarifications on issues raised by the Directors.

The Nominating Committee has been tasked to review the attendance of the Directors at Board and/or Board Committee Meetings. Upon review, the Nominating Committee noted the Board members have devoted sufficient time and effort to attend Board and/or Board Committee Meetings for the FY2018.

For FY2018, the Board members achieved a 100% attendance at the Board Meetings held, notwithstanding that four (4) of its Board members were residing out of Malaysia. The attendance record of each Director at Board Meetings during the last financial year is as follows:-

Name of Directors	Attendance	Percentage of Attendance
Foo Sen Chin	4 out of 4	100%
Soong Jan Hsung	4 out of 4	100%
Tay Eng Hoe	4 out of 4	100%
Wong Heng Chong	4 out of 4	100%
Ahmad Subri Bin Abdullah	4 out of 4	100%
Ho Chee Kit	4 out of 4	100%
Ong Wei Hiam	4 out of 4	100%
Chow Ying Chi	4 out of 4	100%

The Board will also meet on an ad-hoc basis to deliberate urgent issues and matters that require expeditious Board direction or approval. In the intervals between Board Meetings, any matters requiring urgent Board decisions and/or approval can be sought via directors' circular resolution(s) which are supported with all the relevant information and explanations required for an informed decision to be made. Directors' circular resolution(s) which were approved in the intervals between the Board Meetings, would be tabled to the next following Board Meeting for ratification.

Annual Meeting Timetable

In facilitating the schedule of the Directors, in particular the Directors whose principal place of residence are out of Malaysia, the Company Secretaries will prepare and circulate in advance an annual meeting timetable, which includes all the proposed meeting dates for Board and Board Committee Meetings, as well as the AGM. Upon the concurrence by all the Board members, the annual meeting timetable will be adopted for the applicable financial year.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

(v) **Nominating Committee** *cont'd*

Protocol for acceptance of New Directorships

The Board has formalised vide the Board Charter its expectations on time commitment for its members as well as the requirement to notify the Chairman prior to accepting any new directorships. Such notification shall also include an indication of time that will be spent on the new appointment.

For FY2018, the Company received one (1) notification from one (1) Director.

Directors' Training

The Board acknowledges the importance of continuous education and training to equip itself for the effective discharge of its duties. New appointees to the Board undergo a familiarisation programme, which includes visits to The Group's business operations and meetings with Key Management to facilitate their understanding of The Group's operations and businesses.

All members of the Board have attended the Mandatory Accreditation Programme prescribed by Bursa Securities.

For FY2018, the Directors had participated in the following training programmes in addressing their own training needs (hereinafter referred to as the "2018 Directors' Trainings"):-

Name of Directors	Description of Training Programmes
Foo Sen Chin	<ul style="list-style-type: none"> PIKOM Leadership Summit 2018 Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review
Soong Jan Hsung	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review
Tay Eng Hoe	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review
Wong Heng Chong	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review
Ahmad Subri Bin Abdullah	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review
Ho Chee Kit	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates 7th Malaysian Lasallian Educators Conference Education for Peace, Justice and Humanity Strategic Planning Review
Ong Wei Hiam	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review
Chow Ying Chi	<ul style="list-style-type: none"> Malaysia 2018 ICT Market Trends and Updates Strategic Planning Review

In addition, the Company Secretaries and External Auditors update the Board on a regular basis the respective changes and amendments to regulatory requirements and laws and accounting standards to help Directors keep abreast of such developments.

Upon review, the Board concluded that the 2018 Directors' Trainings were adequate.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

(v) Nominating Committee *cont'd*

2019 Directors' Training

Upon review of the training needs of the Directors for the financial year ending 31 December 2019 ("FY2019"), the Board has requested Management to arrange the courses in relation to the business strategy and technology innovation topics to be organised as part of the Directors' continuing education programmes for FY2019.

(vi) Annual Assessment of the Board

Intended Outcome 5.0

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

In compliance with Practice 5.1 of the MCCG, on behalf of the Board, the Nominating Committee conducted the following assessments annually and subsequently reported the respective results to the Board for notation:-

(a) Directors' self-assessment and peer assessment survey

In conducting the Survey, the following main criteria were adopted by the Nominating Committee:-

- (i) Contribution to interaction;
- (ii) Quality of Input; and
- (iii) Understanding of Role.

Based on the Survey conducted for FY2018, the Nominating Committee was satisfied with the performance of the individual Directors.

(b) Evaluation on the effectiveness of the Board of Directors and the Board Committees

In conducting the Evaluation, the following main criteria were adopted by the Nominating Committee:-

- Board Structure;
- Board Operations;
- Board Roles and Responsibilities;
- Board Chairman's Roles and Responsibilities; and
- CEO's Roles and Responsibilities.

Based on the Evaluation conducted for FY2018, the overall performances in four (4) areas have improved as compared to that of the financial year ended 31 December 2017 ("FY2017"). The Nominating Committee was therefore satisfied with the performance of the Board and Committees of the Board.

(c) Evaluation on the contribution of the CEO

The Nominating Committee conducted an evaluation on the contribution of the CEO for FY2018 and was satisfied with the performance of the CEO.

(d) Evaluation on the contribution of the Non-Executive Chairman

The Nominating Committee also conducted an evaluation on the contribution of the Non-Executive Chairman for FY2018 and was satisfied with the performance of the Non-Executive Chairman.

(e) Annual Assessment of Independence of Directors

As stipulated under the Directors' Assessment Policy, the Board adopts the concept of independence in tandem with the definition of Independent Director in Paragraph 1.01 of the Main LR of Bursa Securities through the assistance of the Nominating Committee.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(2) Board Composition *cont'd*

(vi) Annual Assessment of the Board *cont'd*

(e) Annual Assessment of Independence of Directors *cont'd*

The Board noted that Letters of Declaration by Independent Director have been executed by the following Independent Non-Executive Directors (“**INEDs**”) of the Company, confirming their independence pursuant to relevant Main LR of Bursa Securities and that they have undertaken to inform the Company immediately should there be any change which could interfere with the exercise of their independent judgement or ability to act in the best interest of the Company:-

- Mr. Wong Heng Chong;
- Encik Ahmad Subri Bin Abdullah;
- Ms. Ho Chee Kit; and
- Mr. Tay Eng Hoe.

Based on the outcome of the abovementioned assessments, the Board is satisfied with the level of independence demonstrated by the INEDs and their ability to act in the best interest of the Company.

The Board considers that its Independent Directors provide objective and independent views on various issues dealt with at the Board and Board Committee level. All Non-Executive Directors are independent of management and free from any relationship. The Board is of the view that the current composition of Independent Directors fairly reflects the interest of minority shareholders in the Company through the Board representation.

(f) Re-election of Directors

All Directors are subject to election by shareholders at the first opportunity after their appointment in the next AGM. The Company's Articles of Association ensure that at least one third (1/3) of the Directors are required to retire from office by rotation annually and subject to re-election at each AGM and all Directors stand for re-election at least once in every three (3) years.

Pursuant to Articles 102 of the Articles of Association of the Company, the following Directors are to retire at the forthcoming Twenty-Third AGM (hereinafter referred to as “the Retiring Directors”):-

- Mr. Soong;
- Ms. Ho; and
- En. Subri.

The Nominating Committee, as guided by the Directors' Assessment Policy, has undertaken a formal assessment of the Retiring Directors using the abovementioned criteria and was satisfied with the performance of the Retiring Directors.

Ms. Ho and En. Subri, as the Independent Directors have been subject to the following further assessment:-

- Satisfactory Test of Independence under the Main LR of Bursa Securities;
- Independence from members of the Board and Management;
- Free from any business relationship and/or other relationship which could interfere with the exercise of independent judgement; and
- Whether he has exercised his independent judgement and opinions in the Board and Board Committee Meetings, respectively.

Upon assessment, the Nominating Committee was satisfied that the Retiring Directors have met the spirit, intention and purpose of the definition as prescribed under Paragraph 2.1, Practice Note 13 of the Main LR of Bursa Securities.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(3) Remuneration

Intended Outcome 6.0

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

(i) Remuneration Committee

In compliance with Practice 6.2 of the MCCG, the Board has established a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of Board and senior management.

For FY2018, the Remuneration Committee comprises solely of Non-Executive Directors/Chairman and two (2) of them are Independent Directors during FY2018.

The Remuneration Committee of the Company was formed to recommend to the Board the remuneration package of Executive Director and Non-Executive Directors of the Company and its subsidiaries to attract, retain and motivate Directors. The membership of the Remuneration Committee is set out as follow:-

Remuneration Committee	Number of Remuneration Committee Meetings attended/held in the financial year under review
Ahmad Subri Bin Abdullah (<i>Chairman</i>)	1/1
Ho Chee Kit (<i>Member</i>)	1/1
Foo Sen Chin (<i>Member</i>)	1/1
Ong Wei Hiam (<i>Member</i>) (<i>ceased on 21 February 2019</i>)	1/1
Chow Ying Chi (<i>Member</i>) (<i>appointed on 21 February 2019</i>)	0/0

On 21 February 2019, Mr. Ong Wei Hiam has ceased his position as a member of Remuneration Committee and Ms. Chow has been appointed as a member of Remuneration Committee.

The remit of the Remuneration Committee is governed by the TOR of the Remuneration Committee. This TOR has been revised on 19 March 2018 and a revised copy of the TOR of the Remuneration Committee is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

The Remuneration Committee met once during the FY2018, reviewed and recommended to the Board for approval the following matters:-

- The Group's total bonus for year 2017 and total salary increment for year 2018;
- the bonus payments to Mr. Foo as Executive Chairman and Mr. Soong as CEO for year 2017;
- the bonus payment to the senior management team for year 2017;
- the increments to the senior management team for year 2018;
- the Directors' and Board Committee's fees for the financial year ended 31 December 2018;
- the payment of benefits payable to the Directors under Section 230(1)(b) of the CA 2016;
- the intended outcome 7.0 of the MCCG which came into operation with effect from 26 April 2017; and
- the promotion of General Manager of the subsidiary company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(3) *Remuneration cont'd*

(ii) *Directors' Remuneration Policy*

The policies and procedures for determining the remuneration packages of the Directors and CEO of The Group are formalised in the form of a Directors' Remuneration Policy, adopted by the Board since 20 February 2013 and subsequently revised and updated on 25 April 2016 and 19 March 2018. This is also in compliance with Practice 6.1 of the MCCG.

The Remuneration Committee is guided by the Directors' Remuneration Policy which sets out the criteria to be used in recommending the remuneration package of Directors and CEO of the Company to ensure that the Directors and CEO are paid a remuneration commensurate with the responsibilities of their positions.

A copy of this Policy is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

Intended Outcome 7.0

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

(iii) *Details of each individual director's remuneration for FY2018*

The Remuneration Committee recommends to the Board the policy and framework of the Directors' remuneration and the remuneration package of the Executive Directors. It is the ultimate responsibility of the Board to approve the remuneration packages of Directors.

In compliance with Practice 7.1 of the MCCG, there is detailed disclosure on named basis for the remuneration of individual directors.

For FY2018, the aggregate of remuneration received and receivable by the Executive Director and Non-Executive Directors of the Company and The Group categorised into appropriate components are as follows:-

Received and receivable from the Company

Name of Director	Salaries RM'000	Fees RM'000	Meeting Allowance RM'000	Other Emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Executive Director						
Soong Jan Hsung	-	42	-	-	-	42
	-	42	-	-	-	42
Non-Executive Directors						
Foo Sen Chin	-	69	4	-	-	73
Ho Chee Kit	-	63	6	-	-	69
Tay Eng Hoe	-	47	3	-	-	50
Wong Heng Chong	-	60	5	-	-	65
Ahmad Subri Bin Abdullah	-	62	6	-	-	68
Ong Wei Hiam	-	60	6	-	-	66
Chow Ying Chi	-	42	3	-	-	45
	-	403	33	-	-	436

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS *cont'd*

(3) Remuneration *cont'd*

(iii) Details of each individual director's remuneration for FY2018 *cont'd*

Received and receivable on Group Basis

Name of Director	Salaries RM'000	Fees RM'000	Meeting Allowance RM'000	Other Emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Executive Director						
Soong Jan Hsung	1,670	46	-	-	15	1,731
	1,670	46	-	-	15	1,731
Non-Executive Directors						
Foo Sen Chin	-	73	4	360	35	472
Ho Chee Kit	-	63	6	-	-	69
Tay Eng Hoe	-	47	3	-	-	50
Wong Heng Chong	-	60	5	-	-	65
Ahmad Subri Bin Abdullah	-	62	6	-	-	68
Ong Wei Hiam	-	60	6	-	-	66
Chow Ying Chi	-	42	3	-	-	45
	-	407	33	360	35	835

Note: Salary includes bonus and EPF

(iv) Details of top five (5) senior management's remuneration for FY2018

Senior Management	Senior Management
RM950,001 to RM1,000,000	1
RM650,001 to RM700,000	1
RM400,001 to RM450,000	2
RM350,001 to RM400,000	1

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

Intended Outcome 8.0

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

(1) Audit Committee

The membership, a summary of the activities of the Audit Committee and Internal Audit Function and Activities are stated in the Report of the Audit Committee of this Annual Report on pages 73 to 77.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

(1) **Audit Committee** *cont'd*

As at the date of this Statement, the Chairman of the Audit Committee is Mr. Wong Heng Choong, an Independent Director while Mr. Foo is the Non-Independent Non-Executive Chairman of the Board.

In compliance with Practice 8.1 of the MCCG which stipulates that Chairman of the Audit Committee is not the Chairman of the Board, the TOR of the AC has been updated accordingly.

No appointment of former key audit partners as Audit Committee/Board Member

Practice 8.2 of the MCCG requires the Audit Committee to have a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee. The TOR of the Audit Committee has been updated accordingly in order for the AC to formalise such policy.

As a matter of practice, the Audit Committee has recommended to the Nominating Committee not to consider any key audit partner as a candidate for Board Directorship/Audit Committeeship to solidify the Audit Committee's stand on such Policy.

Assessment of Suitability, Objectivity and Independence of External Auditors

In compliance with Practice 8.3 of the MCCG, for FY2018, the Audit Committee has formalised the policy and procedures to assess the suitability, objectivity and independence of external auditors ("**the EA Policy**") on 20 February 2019.

Pursuant to the EA Policy, the Audit Committee has conducted an annual assessment on the external auditors for FY2018.

In its assessment, the Audit Committee considered, inter alia, the following factors:-

For assessment on "Suitability" of External Auditors:-

- The External Auditors have the adequate resources, skills, knowledge and experience to perform their duties with professional competence and due care in accordance with approved professional auditing standards and applicable regulatory and legal requirements;
- To the knowledge of the Audit Committee, the External Auditors do not have any record of disciplinary actions taken against them for unprofessional conduct by the Malaysian Institute of Accountants ("**MIA**") which has not been reserved by the Disciplinary Board of MIA;
- The External Auditors firm has the geographical coverage required to audit the Group;
- The External Auditors firm advises the Audit Committee on significant issues and new developments pertaining to risk management, corporate governance, financial reporting standards and internal controls on a timely basis;
- The External Auditors firm consistently meets the deadlines set by the Group;
- The level of quality control procedures in the external audit firm, including the audit review procedures; and
- The External Auditors scope is adequate to cover the key financial and operational risks of the Group.

For assessment on "Objectivity" of External Auditors:-

- The nature and extent of the non-audit services rendered and the appropriateness of the level of fees.

For assessment on "Independence" of the External Auditors:-

- The engagement partner has not served for a continuous period of more than seven (7) years with the Company;
- The Audit Committee receives written assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements; and
- Tenure of the current auditors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

(1) **Audit Committee** *cont'd*

Assessment of Suitability, Objectivity and Independence of External Auditors *cont'd*

The Audit Committee noted, for FY2018, KPMG PLT, the External Auditors of The Group confirmed in writing that the engagement quality control reviewer and members of the engagement team in the course of their audits were and had been independent for the purpose of the audit in accordance with the terms of relevant professional and regulatory requirements.

Upon completion of its assessment, the Audit Committee was satisfied with KPMG PLT's technical competency and audit independence during the financial year under review and recommended to the Board the re-appointment of KPMG PLT as External Auditors for the financial year ending 31 December 2019. The Board has in turn recommended the same for shareholders' approval at the forthcoming Twenty-Third AGM of the Company.

During FY2018, the Audit Committee met twice with the External Auditors without the presence of the Executive Board Members and Management to discuss issues of concern to the External Auditors.

Provision of Non-Audit Services

The EA Policy has outlined the circumstances and the approval threshold/process for the engagement of the external auditors or its affiliates to perform non-audit services that are not, and are not perceived to be, in conflict with the role of the external auditors. This excludes audit related work in compliance with statutory requirements.

Before appointing the external auditors or its affiliates to undertake any non-audit services, considerations would be given as to whether such appointment would create a threat to the external auditors' independence or objectivity on the statutory audit of the Company's financial statements, including any safeguards that are available to address such a threat.

Intended Outcome 9.0

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

(2) **Risk Management and Internal Control Framework**

The Directors are responsible for The Group's system of internal controls and its effectiveness. The principal aim of the system of internal controls is the management of financial and business risks that are significant to the fulfilment of The Group's business objectives, which is to enhance the value of shareholders' investment and safeguarding The Group's assets.

In compliance with Practice 9.1 of the MCCG, the Board has adopted an Enterprise Risk Management ("ERM") Framework to manage its risk and opportunities. A Management Committee known as the ERM Committee which reports directly to the Audit Committee was established by the Board, with the primary responsibility of ensuring the effective functioning of the adopted ERM Framework.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

(2) Risk Management and Internal Control Framework *cont'd*

The ERM Committee comprises six (6) members from the Senior Management Team and chaired by the CEO who is also the Board's representative. The composition of the ERM Committee is as follows:-

Name	Position	Designation
Foo Sen Chin	Advisor	Non-Executive Chairman
Soong Jan Hsung	Chairman	Chief Executive Officer
Tee Ang Kuan	Member	Group General Manager
Chan Puay Chai	Member	Chief Financial Officer
Chuah Kee Heng	Member	General Manager
Li Chin Yeo (Joined in July 2017)	Member	General Manager
Tan Say Meng (Ceased in October 2018)	Member	General Manager

The ERM Committee is responsible for implementing processes in identifying, evaluating, monitoring and reporting of risks and internal controls. The risk profile covering risk assessment, classification and risk ranking followed by action plans taken to mitigate the risks identified are then presented to the Audit Committee for review on a quarterly basis. The ERM Committee together with the operating units will ensure the timely resolution of outstanding issues and implementation of action plans that are to be carried out and completed within the reasonable timeframe to mitigate the risks level.

The internal controls are tested for effectiveness and efficiency two cycles per financial year via an Independent Outsourced Internal Audit function. The report of the Internal Audit is tabled for the Audit Committee's review and comments, and the audit findings will then be communicated to the Board.

The Statement on Risk Management and Internal Control of The Group as set out on pages 70 to 72 of this Annual Report provides an overview of the state and features of risk management and internal controls within The Group, in compliance with Practice 9.2 of the MCCG.

For FY2018, the Board opined that the risk management and internal controls of The Group were effective and adequate.

As part of the risk mitigation measures, the Board has established the following policies:-

(i) Insider Dealing Policy

Insider dealing or trading is defined as the purchase or sale of the Company's securities affected by or on behalf of a person with knowledge of relevant but non-public material information regarding that company. The insider is in a position to make massive gains by selling or buying securities before information that might affect the price of the Company's securities (price-sensitive information) is made public.

This policy aims mainly to prevent insider dealing of securities and ensure transparency and fairness in dealing with all stakeholders of The Group.

This Policy has been revised on 25 April 2016 and an updated copy of this Policy is available for viewing under the "Corporate Governance" section of the Company's corporate website at www.vstecs.com.my.

(ii) Succession Planning Policy

The Succession Planning Policy is intended to address The Group's continuity in leadership for all key positions.

Succession planning is an on-going process designed to ensure that The Group identifies and develops a talent pool of employees through mentoring, training and job rotation for high level management positions that become vacant due to retirement, resignation, death or disability and/or new business roles.

A copy of this Policy is available for viewing under the "Corporate Governance" section of the Company's corporate website at www.vstecs.com.my.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

(2) Risk Management and Internal Control Framework *cont'd*

(iii) Related Party Transaction Policy

The Company is principally an investment holding company which is also involved in the provision of e-Commerce systems and solutions. It is anticipated that The Group would, in the ordinary course of business, enter into transactions of a revenue or trading nature with a related party or parties.

The Board has formalised a Related Party Transactions (“RPT”) Policy which is designed to ensure the RPTs carried out in the ordinary course of business, are made at arm’s length and on normal commercial terms which are not more favourable to the related party or parties than those generally available to the public and are not on terms that are detrimental to the minority shareholders of the Company.

This policy also aims to comply with the Part E, Paragraphs 10.08 and 10.09 of the Main LR of Bursa Securities.

A copy of this Policy is available for viewing under the “Corporate Governance” section of the Company’s corporate website at www.vstecs.com.my.

Intended Outcome 10.0

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

Internal Audit Function

The Outsourced Internal Auditors and In-House Internal Audit Manager communicate regularly with and report directly to the Audit Committee. For FY2018, the Outsourced Internal Auditors’ representative met up three (3) times with the Audit Committee.

The Internal Audit Review of the Company’s operations encompasses an independent assessment of the Company’s compliance with its internal controls and makes recommendations for improvement.

Outsourced Internal Auditors

At the Audit Committee Meeting held on 1 November 2017, the Outsourced Internal Auditors have presented to the Audit Committee the Internal Audit Function’s Annual Audit Plan (“the Outsourced Annual Audit Plan”) for the year 2018, encompassing the following audit visits and timing:-

(a) First Visit (January – June 2018)

VSTECs Astar Sdn. Bhd. (formerly known as ECS Astar Sdn. Bhd.)

- Order Processing and Billing
- Logistic Management and Delivery Controls
- Collection and Credit Control Function

VSTECs Berhad Group (formerly known as ECS ICT Group)

- Half-yearly Recurrent Related Party Transactions Review

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT *cont'd*

(2) Risk Management and Internal Control Framework *cont'd*

(iii) Related Party Transaction Policy *cont'd*

(b) Second Visit (July - December 2018)

VSTECS Berhad Group (formerly known as ECS ICT Group)

- Inventory Management
- Human Resource Management
- General Security and Safety Management
- Half-yearly Recurrent Related Party Transactions Review

The Audit Committee has resolved that the Outsourced Annual Audit Plan for the year 2018 be approved for adoption.

For FY2018, the Outsourced Internal Auditors have successfully completed their audit visits and reporting as per the approved Outsourced Annual Audit Plan.

In-House Internal Audit Department

The In-House Internal Auditors communicate regularly with and report directly to the Audit Committee. For FY2018, the In-House Internal Auditors met up four (4) times with the Audit Committee.

At the Audit Committee Meeting held on 1 November 2017, the In-House Internal Audit Manager has presented to the Audit Committee the In-House Internal Audit Function's Audit Plan for year 2018, encompassing the following key areas:-

- Marketing Expenses and Advertisement and Promotional Expenses – First Quarter 2018
- Warehouse Function – Second Quarter 2018
- Human Resource – Second Quarter 2018
- Productivity Analysis (Service and Maintenance) – Third Quarter 2018
- Purchasing (Stock and Non-Stock) – Fourth Quarter 2018
- Information Technology – Fourth Quarter 2018

The Audit Committee has subsequently approved the In-House Audit Plan for year 2018.

For FY2018, the In-House Internal Audit Department have substantially carried out their audit assignments and reporting as per the approved In-House Audit Plan for year 2018.

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

(1) Communication with Stakeholders

Intended Outcome 11.0

There is continuous communication between the company and stakeholders to facilitate a mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

In compliance with Practice 11.1 of the MCOG, the Board ensures that there is effective, transparent and regular communication with its stakeholders through a variety of communication channels as described:-

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS *cont'd*

(1) *Communication with Stakeholders cont'd*

(a) *Corporate Disclosures/Investor Relations*

The Board recognises the value of transparent, consistent and coherent communications with the investment community consistent with commercial confidentiality and regulatory considerations.

The Board has developed internal corporate disclosure practices to ensure communications to the investing public regarding the business, operations and financial performance of The Group are accurate, timely, factual, informative, consistent, broadly disseminated and where necessary, information filed with regulators is in accordance with applicable legal and regulatory requirements.

The Board has on 3 August 2016 adopted the Corporate Disclosure Policy which superseded the Investor Relations Policy, to ensure only designated spokespersons will be authorised to disseminate information to ensure consistent and accurate flow of information disclosure to the stakeholders.

A copy of this Policy is available for viewing under the "Corporate Governance" section of The Group's corporate website at www.vstecs.com.my.

The Board has designated a limited number of spokespersons who responsible for communication with investment community, regulators and media.

Primary Spokespersons:-

- (i) Non-Executive Chairman
- (ii) Chief Executive Officer

The Company's Non-Executive Chairman and Chief Executive Officer have been appointed to communicate with audience constituents and respond to questions in relation to the corporate vision, strategies, developments, future prospects, financial plans and operational matters.

Secondary Spokesperson:-

- (i) Chief Financial Officer/Company Secretary

The Chief Financial Officer/Company Secretary may only communicate to audience constituents on information already in the public domain, unless they are authorised by the Primary Spokespersons to undertake broader communications.

(b) *Analysts and media briefings*

The Company is committed to on-going communication across its entire shareholder base, whether institutional investors, private or employee shareholders. This is achieved principally through annual and quarterly reports.

The Company provides regular investor briefings with research analysts and fund managers, to promote clear and transparent communications to the investment community.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS *cont'd*

(1) *Communication with Stakeholders cont'd*

(b) *Analysts and media briefings cont'd*

The Group has carried out the engagement activities during the FY2018 as set out below:-

28 February 2018 Press Release on 4Q 2017 Results	2 March 2018 Research Reports posted on 4Q 2017
16 May 2018 22nd Annual General Meeting	
17 May 2018 Press Release on 1Q 2018 Results	18 May 2018 Research Reports posted on 1Q 2018
8 August 2018 Press Release on 2Q 2018 Results	10 August 2018 Research Reports posted on 2Q 2018
8 November 2018 Press Release on 3Q 2018 Results	8 November 2018 Research Reports posted on 3Q 2018

For FY2018, the Company has held four (4) analysts briefing and issued four (4) press releases. The research reports and press releases are available for viewing under the "News" section of The Group's corporate website at www.vstecs.com.my.

(c) *Corporate Website*

The Company's website at www.vstecs.com.my serves as a plethora of information to the public, which includes, inter alia, corporate information, business activities, corporate governance matters, latest press releases, annual reports, financial results, news listing, B2B online and etc.

The Company has created two (2) dedicated sections to ensure more effective dissemination of information:-

- (a) A dedicated "**Investor Relations**" section which provides all relevant information on The Group and is accessible by the public. It includes all the announcements made by the Company, Annual Reports, Summary of Key Matters Discussed at the AGM, Corporate Presentation for the Quarterly Financial Results and etc. The Board discloses to the public all material information necessary for informed investment and takes reasonable steps to ensure that all shareholders enjoy equal access to such information.

The Company had published its summary of key matters discussed at the Twenty-Second AGM on its corporate website under the "Financial Information" section at www.vstecs.com.my in complied with the Paragraph 9.21(2)(b) of the Main LR of Bursa Securities.

- (b) A dedicated "**Corporate Governance**" section which provides access to various policies and statements (as mentioned in the various sections of this Statement), duly made available and updated for the ease of reference by stakeholders.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS *cont'd*

(2) *Conduct of General Meetings*

Intended Outcome 12.0

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

(i) *Notice of Annual General Meeting*

In accordance with the Articles of Association of the Company, a notice to convene the Annual General Meeting is issued by the Board. Notice is given at least fourteen (14) days before the meeting or at least twenty-one (21) days before the meeting where any special resolution is to be proposed or where it is an annual general meeting. The notice is to be published in at least one (1) nationally circulated Bahasa Malaysia or English daily newspaper and in writing to Bursa Securities.

The Board had on 24 April 2018, issued its Notice of Twenty-Second Annual General Meeting of the Company ("**22nd AGM**"), at least twenty-one (21) days before the date of the meeting i.e. 16 May 2018. The Notice clearly identified the directors seeking re-election, the auditor seeking re-appointment and the Notice of Dividend Entitlement.

For the Twenty-Third AGM to be held on 15 May 2019, the Board is targeted to issue the Notice of Twenty-Third AGM at least twenty-eight (28) days prior to the date of the meeting to give sufficient time to shareholders to consider the resolutions that will be discussed and decided at the AGM.

(ii) *Attendance of Directors at General Meetings*

All Board members, save for Mr. Tay Eng Hoe who was absent due to prior overseas engagement, attended the 22nd Annual General Meeting of the Company held on 16 May 2018 and provided responses to the shareholders on the key matters arose during the Meeting. Mr. Soong, the CEO had presented a short review of the Company's 2017 performance and key initiatives for 2018 to the shareholder on operations highlights, financial snapshot, growth strategies and investment highlights.

During FY2018, the Directors had called an Extraordinary General Meeting ("**EGM**") of the Company which was held on 8 November 2018 to seek the shareholders' approval for the following resolutions:-

- (i) Proposed change of name of the Company from "ECS ICT Berhad" to "VSTECS Berhad";
- (ii) Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue and/or Trading Nature; and
- (iii) Proposed Authority for the Company to purchase its own shares.

(iii) *Poll Voting*

The Company had conducted the electronic poll voting for all resolutions set out in the Notice of 22nd AGM which the 22nd AGM held on 16 May 2018 and poll voting manually for EGM held on 8 November 2018. The Company has appointed an independent scrutineer to validate the votes cast at the 22nd Annual General Meeting and EGM. The poll results were announced by the Company to the Bursa Securities on the same day.

CONCLUSION

The Board is satisfied that, it complies substantially with the principles and recommendations of the MCCG. The CG Report which sets out the application of each Practice of MCCG is available for viewing in The Group's corporate website at www.vsteecs.com.my.

This Statement and the CG Report have been approved by the Directors in accordance with a Resolution of the Board of Directors passed on 29 March 2019.

SUSTAINABILITY STATEMENT

The Group places great emphasis on sustainability practices encompassing matters related to the Economic, Environmental and Social (“EES”) areas and has adopted these practices in its management system and corporate strategy since 2012 through various programmes.

These practices and activities in the year under review are integrated in the management’s efforts to maintain a viable and sustainable commercial enterprise. At the same time, we strive to be responsible corporate citizens by ensuring that we conduct our business activities in a socially and environmentally responsible manner while keeping in mind the best interests of our stakeholders, including shareholders, customers, suppliers and employees.

The Board governs all matters related to sustainability practices through several committees. It oversees the Enterprise Risk Management Committee (“ERM Committee”), Environmental and Social Committee (“E&S Committee”), and the Health and Safety Committee (“H&S Committee”), chaired by The Group’s Chief Executive Officer, Chief Financial Officer and Senior Logistics Manager respectively.



OUR SUSTAINABILITY PRACTICES

The Group has been disclosing its sustainability practices in the form of the Corporate Responsibility Statement in our Annual Reports since 2012.

The identified and prioritised sustainability matters pertinent to The Group, and our ongoing sustainability practices to mitigate these matters are as follows:

1. Economic Sustainability Matters

1.1 Product Portfolio Management

We provide ICT products to both the Consumer and Enterprise ICT markets. To ensure that we have a diversified product portfolio, The Group currently has more than 40 principals who are leaders in their respective ICT product segments.

The Consumer ICT products comprise of notebooks, PCs, smartphones, tablets, printers and supplies, software, drones and wearables.

The Group’s Enterprise ICT products comprise of servers, network systems, data centre infrastructure equipment, enterprise software, cloud services as well as value-added ICT services for SI and corporate dealers.

To ensure that The Group remains a leading distributor of ICT products and services, we have expanded into areas such as cloud computing services, Artificial Intelligence (“AI”), cybersecurity and Internet of Things (“IoT”).

SUSTAINABILITY STATEMENT

cont'd

OUR SUSTAINABILITY PRACTICES *cont'd*

1. Economic Sustainability Matters *cont'd*

1.2 New Business Development

In addition to expanding our market share in consumer ICT products, we shall focus on IoT products relating to home automation and e-Sports gaming products.

We are also continuing our expansion into cloud data centre, networking infrastructure and cybersecurity products and services as new growth areas as evidenced by our increase in headcount of technical personnel to support these initiatives. The Group's subsidiaries have also been recently restructured to provide more comprehensive services to our corporate resellers.

In order to have a better coverage of the consumer market, The Group will continue to focus on online channels in partnership with major e-Commerce marketplaces, including the setting up of online brand-stores, conducting promotions and innovating new channel distribution strategies with our partners and vendors.

The Group is constantly innovating new distribution channels with the rise of e-Commerce, and one example is an O2O initiative emphasising on smooth and seamless buying experience for consumers by providing a platform to integrate online features with physical retail shopping facilities.

1.3 Competitive Advantages

We have maintained our market leadership position in the highly competitive ICT distribution industry by operating a network of more than 6,600 resellers nationwide servicing a diverse customer base from consumers to corporate and enterprise users.

To give our enterprise products a competitive advantage and support our SI and enterprise resellers, we have a team of more than 40 industry-certified technical support personnel for after-sales service and other value-added services.

1.4 Operations Infrastructure

Our fully integrated Enterprise Resource Planning ("ERP") system provides The Group with effective credit, inventory and logistics management to minimise inventory holding cost and sustain a healthy cash flow. This includes the use of specific business analytics tools to track and monitor inventory movements and sales performance. For logistics, we prioritise and practise timely delivery of orders with an emphasis on same-day deliveries to our retailers whenever possible.

We have a time-tested distribution infrastructure, supported by an in-house integrated ERP system powered by a high-availability platform architecture that processes transactions with our vendors as well as our channel partners in a coherent manner.

The Board is aware of the importance of an effective Business Continuity Management ("BCM") programme particularly in identifying potential risks to the organisation and the impact such risks may have on business operations. BCM has been implemented to all business units since year 2014 to form part of The Group's core activities and effective management in order to enhance the business unit's responsibility and accountability in ensuring the preparedness of the organisation's resiliency to incidents and disruptions.

As such, under the stringent requirement of the BCM, our ERP system infrastructure has multiple redundancies including an off-site remote location as a backup location for business continuity. Our main office location is also supported by multi-path Internet uplinks, thus ensuring that critical services such as e-mail, online payment gateways and the Business-to-Business ("B2B") online portal is accessible at all times. The Group maintains an up-to-date BCM plan that includes periodic testing of system switchovers, and remote location facilities as per the BCM requirements.

OUR SUSTAINABILITY PRACTICES *cont'd*

1. Economic Sustainability Matters *cont'd*

1.5 Talent Management

We are an equal opportunity employer and practise this principle in our hiring and rewards system.

As at 28 February 2019, The Group has 346 employees, with a male-to-female ratio of 51:49. Their age ranges from 21 to 60 years, with 73.1% within the age group of 21 to 40 years. Our diversified team ensures that The Group has a healthy combination of young and dynamic individuals as well as industry veterans with the appropriate knowledge and experience for our industry.

VSTECS recognises the importance of continual investment in our employees to adequately update their skill levels to commensurate with the ever-evolving ICT sector. Hence, The Group has in place a Training and Development Programme for its employees.

For the year under review, a total of 303 employees attended training courses on vendors' products and technical certifications, finance and accounting, statutory compliances, soft skills, safety and product knowledge. This ensures that both existing and new employees are equipped with the necessary knowledge and competencies to meet the job requirements while nurturing new talents and abilities.

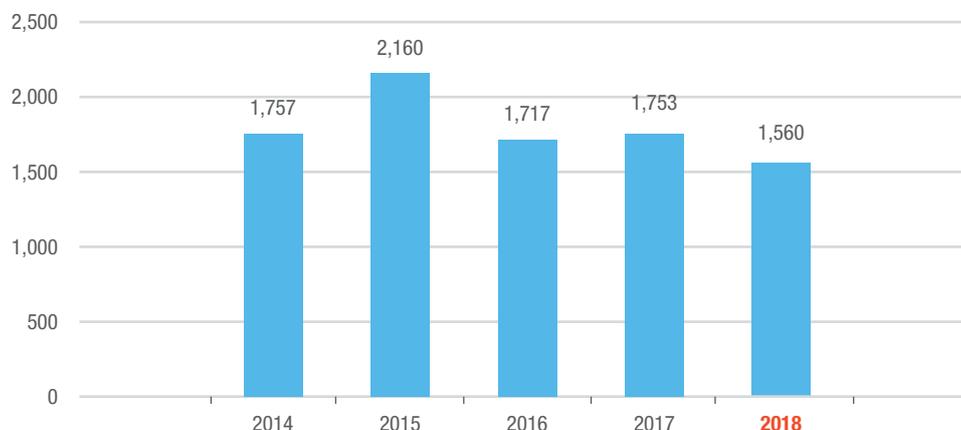
2. Environmental Sustainability Matters

The Group is cognisant of its role in helping to reduce wastage as well as implementing practices that can reduce its carbon footprint, therefore contributing to a greener environment.

2.1 Paper & Packaging Materials Consumption and Office Waste Management

Office paper consumption remained well under control in the year under review, with all subsidiaries under The Group reporting consumption of A4 paper below the allotted monthly limits. E-documentation procedures implemented since 2016 have contributed to the reduction of paper usage. Compared to 2017, there was a 11% reduction in paper usage for 2018.

Paper Consumption (Reams)



By-products from used packaging materials constitute the largest portion of our waste but we have continued to cut down on this waste by reusing and recycling such materials where appropriate.

SUSTAINABILITY STATEMENT

cont'd

OUR SUSTAINABILITY PRACTICES *cont'd*

2. Environmental Sustainability Matters *cont'd*

2.1 Paper & Packaging Materials Consumption and Office Waste Management *cont'd*

The recyclability breakdown is as below:

Total amount of materials recycled	
Paper	9,423 kg
Plastic	255 kg
TOTAL	9,678 kg

We have reduced the amount of recycled paper from 14,658kg in 2017 to 9,423kg in 2018 and recycled plastic of 1,950kg in 2017 to 255kg in 2018. This indicates that The Group's efforts in improving packing efficiency and reducing the use of packing material have been effective thus far.

To further reduce the office waste, we have installed drinking water dispensers in all meeting rooms to reduce the usage of packaged drinks.

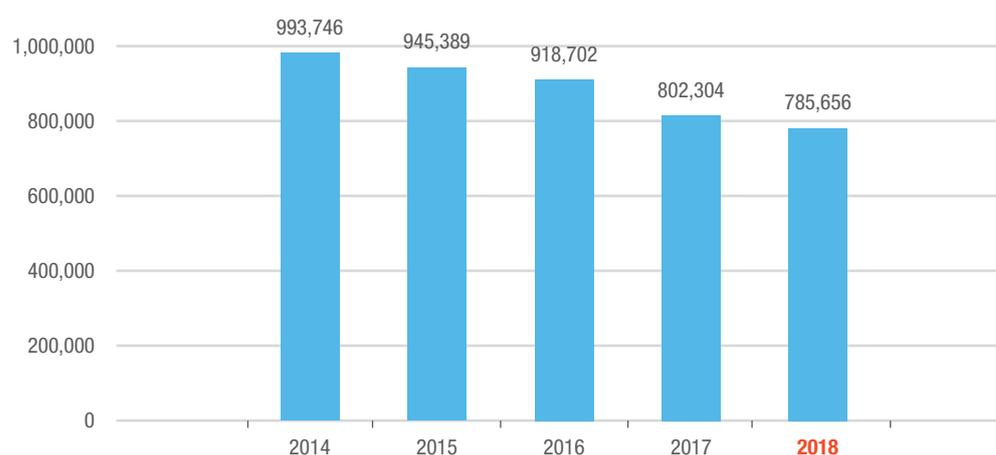
A one-day recycling and donation day was conducted to spread the message of a sustainable future that does not involve unnecessary use of resources. Employees were encouraged to donate personal and household items that may be recycled or reused.

2.2 Electricity Management

Annual electricity consumption in The Group's Petaling Jaya headquarters continued to lessen. Electricity consumption reduced by 20.94% to 785,656 kilowatt hour ("kWh") in 2018 compared to 993,746 kWh in 2014. From 2014 to 2018, the reduction in electricity consumption is attributable to several initiatives and programmes undertaken within The Group, which were practised throughout the office by all employees as follows:

- A campaign to remind all employees to reduce the usage of electricity whenever possible;
- Regular office and compound walks to check for maintenance and replacement of electrical equipment and lighting to maximise energy efficiency;
- Installation of timers to electrical appliances including air conditioners to manage electricity consumption; and
- Installation of LED lights throughout the office and warehouse.

Electricity Consumption (kWh)



OUR SUSTAINABILITY PRACTICES *cont'd*

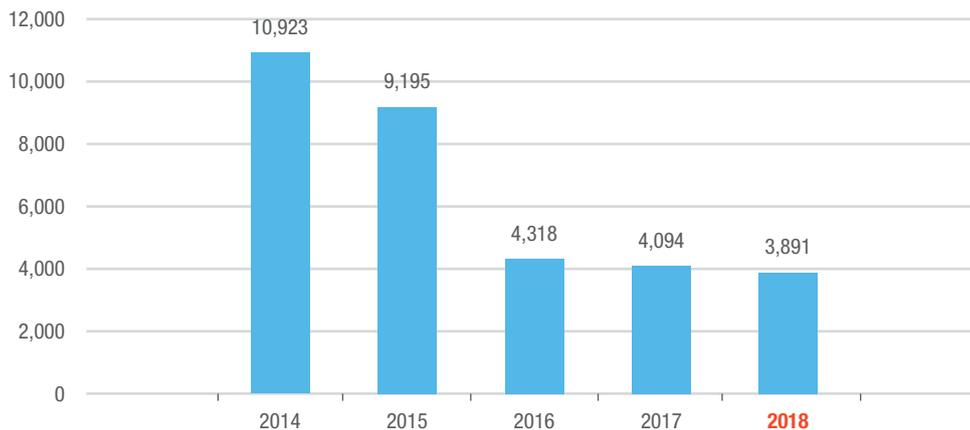
2. Environmental Sustainability Matters *cont'd*

2.3 Water Management

Our water consumption has been on a reducing trend since we started tracking water usage from 2013 onwards. Annual water consumption has declined 64.38% to 3,891 cubic metres (“m³”) in 2018 compared to 10,923 m³ in 2014. The reduction in water consumption is mainly attributable to our water management initiatives, comprising of:

- Regular maintenance of water taps and water pipes to prevent water leakage;
- Replacement of rotary water taps to spring loaded water taps; and
- Better awareness and adoption of the best practices in water conservation by our staff, canteen operator and office cleaners.

Water Consumption (m³)



3. Social Sustainability Matters

3.1 Workplace

The safety and wellbeing of our employees are our top priority as we strive to maintain a workplace that is safe, incident-free and injury-free.

The H&S Committee organises regular activities in promoting a healthy and safe working environment. These activities include quarterly office, warehouse and compound inspection walks for The Group's premises in Petaling Jaya.

Fire prevention remains a top safety concern for The Group. Every year, the Committee organises bi-annual fire safety drills and risk awareness campaigns such as fire safety talk by the Fire and Rescue Department of Malaysia (“Bomba Malaysia”) and Emergency Response Team training.

3.2 Community

We are ever mindful of the wider VSTECS community, including that of our employees' children. The Group remains a firm supporter of education given its importance for a better future. We continue to operate the annual Employee Children Education Incentive Scheme, now in its fifth year. This programme was set up to motivate children to pursue good academic results in their education and assist the parents to encourage their children. 17 children who achieved outstanding academic results for 2018 were rewarded in an award and certificate presentation ceremony held at The Group's office in Petaling Jaya on 28 March 2019.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors of VSTECS Berhad (formerly known as ECS ICT Berhad) is pleased to present its Statement on Risk Management and Internal Control for the financial year ended 31 December 2018, which has been prepared pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. This statement outlines the nature and state of risk management and internal control of The Group (comprising the Company and its subsidiaries) during the financial year.

BOARD'S RESPONSIBILITY

The Board of Directors acknowledges its overall responsibility for maintaining a sound internal control system for The Group to safeguard the shareholders' investment and The Group's assets, and to discharge their stewardship responsibilities in identifying risks and ensuring the implementation of appropriate systems to manage these risks in accordance with the best practices of the Malaysian Code on Corporate Governance.

The Board further recognises its responsibility for reviewing the adequacy and integrity of The Group's internal control systems and management information systems.

In view of the limitations that are inherent in any systems of internal control, The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objective and can only provide reasonable and not absolute assurance against material misstatement or loss.

For risk management, the Board, through the Enterprise Risk Management ("**ERM**") Committee, would determine the company's level of risk tolerance and identify, assess and monitor key business risks to safeguard shareholders' investments and the company's assets.

For internal control, the Board confirms that there is a continuous process in place to identify, evaluate and manage the significant risks that may affect the achievement of business objectives. The process which has been instituted throughout The Group is updated and reviewed from time to time to be relevant to the changes in the business environment, and this on-going process has been in place for the whole financial year under review and up to the date of adoption of this Annual Report.

ENTERPRISE RISK MANAGEMENT

The Board recognises that risk management is an integral part of The Group's business objectives and is critical for The Group to achieve continued profitability and sustainable growth in shareholders' value. In pursuing these objectives, The Group has adopted an ERM Framework to manage its risk and opportunities. The ERM Committee which reports directly to the Audit Committee was established by the Board, with the primary responsibility of ensuring the effective functioning of ERM Framework.

The ERM Committee assists the Audit Committee and the Board in the continuous process of identifying, measuring, controlling, monitoring, and reporting significant and material risks affecting the achievement of The Group's business objectives. It provides the Board and the Senior Management with a tool to anticipate and manage both the existing and potential risks, taking into consideration the changing risk profiles as dictated by changes in business and regulatory environment, The Group's strategies and functional activities throughout the year.

The ERM framework is professionally developed based on internationally recognised standards. The ERM Committee has developed a risk assessment template, whereby the current year actual incidences and impacts for the respective risks identified were recorded for review and mitigating actions were established.

The ERM Committee meeting is held quarterly to identify any new risks, assess, evaluate and manage risks of The Group. The quarterly review ensures the risks are current and relevant. Risks mitigation are planned and implemented for the identified risks. Risks mitigation programme would include policy changes, establishment on new procedures, surveillance report and other measures. For the year under review, the identified risks are vendor risk, new competition risk, market risk, credit risk, project risk, business model/technology risk, political risk, inventory risk, fraud risk and operational compliance risk. The actual financial impact from the risks (if applicable) is also reviewed on a quarterly basis. Enhancements are made in line with the Board's commitment to improve The Group's governance, risk management and control framework, and practicing effective control culture and environment for The Group's business operations. The on-going ERM exercise is presented quarterly to the Audit Committee for the Board to be updated on the risk management amendments.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

JOINT VENTURE

The disclosures in this statement do not include the risk management and internal control practices of The Group's joint venture company, namely Enrich Platinum Sdn. Bhd. ("EPSB"). The Group's interests in this entity are safeguarded through the appointment of members of The Group to maintain the board of EPSB.

BUSINESS CONTINUITY MANAGEMENT

The Board is aware of the importance of an effective Business Continuity Management ("BCM") programme particularly in identifying potential threats to the organisation and the impact such threats may have on business operations. Additionally, it provides a framework for building organisational resilience that safeguard the interests of its stakeholders, reputation and value creating activities.

The Group has launched its BCM plan to all business units. The Group has also communicated its group-wide awareness on BCM to form the organisation's core values and effective management in order to enhance the realisation of the business unit's responsibility and accountability in ensuring the preparedness of the organisation's resiliency to crisis.

The Group performed notification-tree exercises to test responses from employees on 13 November 2018 with regards to BCM and the results were satisfactory.

Further to that, The Group also performed an Enterprise Resource Planning ("ERP") system failover test to remote site and the results were positive. The Group has a disaster recovery location for ERP and other core systems at a data centre in Cyberjaya, Selangor to cater for mishap in the event of a disaster.

INTERNAL AUDIT FUNCTION

The Board through the Audit Committee endorsed and approved the scope of work for the internal audit function through review of its one-year audit plan.

Internal audit functions are executed by an outsourced independent professional firm and VSTECS' in-house internal audit team respectively to review the sufficiency and adequacy of key internal controls on auditable areas, to highlight any weaknesses in internal control of existing standard practices and to provide recommendations to improve the internal controls within The Group.

The Internal Auditors report directly to the Audit Committee on improvement measures pertaining to internal control, including subsequent follow-up to determine the extent of their recommendations that have been implemented by the Management. Internal audit reports are submitted to the Audit Committee, who reviews the findings with Management at its quarterly meetings. The Management is responsible for ensuring that corrective actions to control weaknesses are implemented within a defined time frame. The status of implementation is monitored through follow-up audits which are also reported to the Audit Committee.

In addition, the deficiencies noted by the External Auditors' and management's responsiveness to the control recommendations on deficiencies noted during financial audits provide added assurance that control procedures on functions with financial impact are in place, and are being adhered to. In assessing the adequacy and effectiveness of the system of internal controls and accounting control procedures of The Group, the Audit Committee reports to the Board its activities, significant results, findings and the necessary recommendations for improvement.

KEY INTERNAL CONTROL PROCESSES

The key elements of The Group's internal control systems are described below:

- i) The Board has established an organisational structure with clearly defined lines of responsibilities, authority limits and accountability aligned to business and operations requirements which support the maintenance of a strong control environment;
- ii) The Board has established the Board Committees with clearly defined delegation of responsibilities within the defined terms of reference. These committees include the Audit Committee, Remuneration Committee and Nominating Committee which have been set up to assist the Board to perform its oversight functions. The committees have the authority to examine all matters within their scope and report to the Board their recommendations; and
- iii) Operational Committees have also been established with appropriate empowerment to ensure effective management and supervision of The Group's core business operations. These committees include the Management Committee, Operation Committee, Credit Control Committee, Inventory Control Committee and Logistics Committee.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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OTHER KEY ELEMENTS OF INTERNAL CONTROLS

- i) Quarterly financial results and other information are provided to the Audit Committee and the Board. This oversight review allows the Board to monitor and evaluate The Group's performance in achieving its corporate objectives;
- ii) The annual budget is reviewed and approved by the Board. The actual performance would be reviewed against the targets on a quarterly basis allowing timely response and necessary action plans to be taken to improve the performance;
- iii) Comprehensive financial accounts and management reports are prepared and reviewed by the Management Committee monthly for effective monitoring and decision-making;
- iv) Policies and procedures of core business processes are documented in a series of Standard Operating Procedures and are implemented throughout The Group. These policies and procedures are subject to periodic reviews, updates and continuous improvements to reflect the changing risks and operational needs;
- v) Necessary actions have been taken on the weaknesses identified in the internal control systems with the implementation of improved control measures and processes;
- vi) Professionalism and competence of staff are maintained through a rigorous recruitment process, continuous in-house training, job quality improvement and a performance appraisal and review system;
- vii) Staff professionalism, industrial skill sets and job competency are progressively developed through broad based training and development programmes;
- viii) The Code of Conduct is implemented within The Group for Directors, Management and employees of The Group. This code is established to promote a corporate culture which ensures ethical conduct throughout The Group; and
- ix) Appropriate insurance coverage and physical safeguards over major assets are in place to ensure that the assets of The Group are adequately covered against any mishap that may result in material losses to The Group.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in the Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants for inclusion in the Annual Report of The Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of The Group, in all material respects:

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

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

CONCLUSION

The Board has reviewed the adequacy and effectiveness of The Group's risk management and internal control system for the year under review and up to the date of approval of this statement for inclusion in the annual report, and is of the view that The Group's risk management system and internal control is generally satisfactory and sufficient to safeguard the shareholders' investment, the interests of customers, regulators and employees, and The Group's assets.

The Board has received assurance from the Chief Executive Officer and Chief Financial Officer that the company's risk management and internal control systems is operating adequately and effectively, in all material aspects, based on the risk management and internal control systems of The Group.

The Board and Management will continue to take necessary measure to strengthen the control environment and monitor the effectiveness of the internal control framework of The Group.

This Statement on Risk Management and Internal Control is made in accordance with the Resolution of the Board of Directors passed on 29 March 2019.

REPORT OF THE AUDIT COMMITTEE

The Board of Directors of VSTECS Berhad (formerly known as ECS ICT Berhad) is pleased to present the Report of Audit Committee which provides insights as to the manner the Audit Committee discharged its functions for The Group for financial year ended 31 December 2018 (“FY2018”).

COMPOSITION AND ATTENDANCES

The Audit Committee (“AC”) comprises four (4) members, which consist of three (3) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director. This complies with Paragraph 15.09(1)(a) and (b) of the Main Market Listing Requirements (“Main LR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”).

Four (4) meetings were held during the year and the attendance of the AC members were as follows:

Directors		Designation	Attendance
Wong Heng Chong	Chairman	Independent Non-Executive Director	4 out of 4 meetings
Ho Chee Kit	Member	Senior Independent Non-Executive Director	4 out of 4 meetings
Ahmad Subri Bin Abdullah	Member	Independent Non-Executive Director	4 out of 4 meetings
Ong Wei Hiam	Member	Non-Independent Non-Executive Director	4 out of 4 meetings

The AC Chairman, Mr. Wong Heng Chong, is a member of Chartered Accountants Australia and New Zealand and Malaysian Institute of Accountants, whereas, Mr. Ong Wei Hiam, an AC member, is a fellow member of Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales, respectively.

In view thereof, the Company has complied with the minimum requirement as set forth under Paragraph 15.09(1)(c) of the Main LR of Bursa Securities.

Assessment on Term of Office and Performance

The Company has developed its proprietary online AC members’ self and peer assessments survey which was duly completed by the AC members. Upon review, the Nominating Committee noted the AC and its members have carried out their duties in accordance with the Terms of Reference of AC, thereby complying with Paragraph 15.20 of the Main LR of Bursa Securities.

Meetings

For FY2018, the AC held four meetings as follow:-

No.	AC Meeting	Date of Meeting	Private session with External Auditors without Executive Board members and Management
(1)	34th AC Meeting	27 February 2018	√
(2)	35th AC Meeting	16 May 2018	
(3)	36th AC Meeting	7 August 2018	
(4)	37th AC Meeting	7 November 2018	√

For FY2018, two (2) private sessions were held with the External Auditors without the presence of the Executive Board members and Management (“Private Sessions”).

As a standing practice, the Chief Executive Officer and the Chief Financial Officer were invited to attend all AC Meetings, except the Private Sessions, to facilitate the presentation as well as to provide clarification on audit issues arising from The Group’s operations. The Head of in-house Internal Audit Department and the outsourced professional Internal Auditors were invited to attend AC Meetings to table their respective Internal Audit (“IA”) reports.

Minutes of the AC Meetings were recorded by the Company Secretaries and tabled for confirmation at the next following AC Meeting and subsequently presented to the Board for notation. The AC Chairman conveyed to the Board on issues of significant concern raised by the AC, Internal Auditors and/or External Auditors.

REPORT OF THE AUDIT COMMITTEE

cont'd

COMPOSITION AND ATTENDANCES *cont'd*

Terms of Reference

A copy of the Terms of Reference (“**TOR**”) of the AC is available under “Corporate Governance” section on the Company’s website at www.vstecs.com.my.

ACTIVITIES OF THE AUDIT COMMITTEE

The following is a summary of the main activities carried out by the Committee during FY2018:

(a) Review of financial performance and results

- 1) Reviewed and recommended the quarterly financial results announcements and the annual audited financial statements of the Company and The Group for the consideration and approval of the Board of Directors, focusing particularly on:
 - a) The overall performance of The Group;
 - b) The prospects for The Group;
 - c) The changes and implementation of major accounting policies and practices; and
 - d) Compliance with accounting standards and other legal requirements.
- 2) Review the significant assumptions made in preparing the financial statements, including accounting estimates that have been identified as having high estimation uncertainty. The following significant matters in relation to the preparation of unaudited quarterly financial results were identified by the AC for FY2018:-
 - a) Allowance for Doubtful Accounts;
 - b) Inventory Obsolescence;
 - c) Monitoring of Key Financial Liabilities; and
 - d) Fair Value Accounting Estimates.

(b) Oversight of External Auditors

- 1) Reviewed with the External Auditors, KPMG PLT the Audit Planning Memorandum covering their scope of works, audit methodology, audit plan as well as proposed fees for the statutory audit and thereafter recommended the same to the Board for approval;
- 2) Reviewed the External Auditors’ Report for FY2018;
- 3) Reviewed updates on the introduction of Malaysian Reporting Financial Standards and how they have impacted The Group and monitored the progress made by Management in meeting the new reporting requirements;
- 4) Received updates by the External Auditors on changes to the relevant guidelines on the regulatory and statutory requirements;
- 5) Two (2) private sessions were held with the External Auditors without the presence of management to discuss on issues of concern and the minutes of those sessions were separately recorded;
- 6) Reviewed the performance of the External Auditors for FY2018 before recommending to the Board their re-appointment at the forthcoming AGM in 2019; and
- 7) Conducted the annual assessment on the suitability and independence of the External Auditors and received written assurance from the External Auditors confirming that they were, and have been independent throughout the conduct of their audit engagement in accordance with all relevant professional and regulatory requirements.

REPORT OF THE AUDIT COMMITTEE

cont'd

ACTIVITIES OF THE AUDIT COMMITTEE *cont'd*

(c) Oversight of internal auditors and internal audit function

The AC notes that the Company maintains an Internal Audit Department (“**IAD**”), as well as the engagement of an outsourced professional firm, i.e. Baker Tilly Monteiro Heng Governance Sdn. Bhd. (“**Baker Tilly**”) with distinct scope of works and responsibilities.

- 1) For IAD, the AC has carried out the following works:-
 - Reviewed the Internal Audit Plan 2019 tabled by the Internal Audit Manager to ensure the adequate coverage of the internal audit programme and recommended the same be tabled to the Board for notation;
 - Reviewed the Internal Audit Reports and recommendations for corrective actions tabled by the Internal Audit Manager; and
 - Reviewed and was satisfied with the performance of the Internal Audit Manager for FY2018 using the adopted assessment form.
- 2) For the Outsourced Internal Auditors, the AC has carried out the following works:-
 - Reviewed the Internal Audit Annual Plan 2019 tabled by Baker Tilly to ensure the adequate coverage of the internal audit programme and recommended the same be tabled to the Board for notation;
 - Reviewed the Internal Audit Reports and recommendations for corrective actions tabled by Baker Tilly; and
 - Reviewed and was satisfied with the performance of the Baker Tilly for FY2018 using the adopted assessment form.
- 3) For the Internal Audit function:-
 - Reviewed the adequacy of scope, functions, competency and resources of the internal audit function; and
 - Reviewed the performance of both the IAD as well as the outsourced Internal Auditors.

(d) Review of related party transactions (“RPTs”) which include recurrent related party transactions (“RRPTs”)

- 1) Reviewed the RPTs entered into by the Company and The Group on a quarterly basis and concluded that there was no conflict of situation that might arise within the Company or Group for the applicable period and the AC reviewed the Circular to Shareholders in relation to the Proposed New Shareholders’ Mandate for RRPTs of a revenue and/or trading nature; and
- 2) Received additional assurance from the Outsourced Internal Auditors in the form of a RPTs report with satisfactory rating based on the review by the latter the tested samples of sales transactions entered into by the Company and its subsidiaries were at arm’s length with reasonable profit margin earned by The Group.

(e) Oversight of ERM Committee and risk management function

An Enterprise Risk Management (“**ERM**”) Committee comprising the CEO, CFO and selected Head of Subsidiaries has been established by the Board. The ERM Committee which reports directly to the AC, has the primary responsibility of ensuring the effective functioning of ERM Framework.

The ERM Committee noted that the abolishment of Goods and Services Tax and implementation of Sales and Service Tax have affected on both corporate and consumer spending.

The ERM Committee reviewed the overall risks assessment template with records of events and impact for year 2018 and concluded that the risk ranking remains unchanged other than there was new Competition Risk to monitor the activities of the new information technology distributor from China as they had just started their Malaysian operation.

REPORT OF THE AUDIT COMMITTEE

cont'd

INTERNAL AUDIT FUNCTION AND ACTIVITIES

Internal Audit Function

The Internal Auditor reports functionally and independently to the AC and is independent of management and of the activities reviewed. Its role encompasses risk-based examination and provides independent and reasonable assurance on the adequacy, integrity and effectiveness of The Group's overall system of internal control, risk management and governance.

The purpose, authority and responsibility of the Internal Audit function as identified by the AC in the form of Internal Audit Charter includes furnishing the AC with audit reports which include independent analyses, appraisals, advices and information on the activities reviewed.

Activities

- 1) During FY2018, the IAD and Outsourced Internal Auditors carried out audit assignments in accordance with the approved audit plan 2018 for The Group.
- 2) Both the IAD and Outsourced Internal Auditors have tabled their Audit Plan for 2019 to the AC for approval and the same has been recommended by the AC to the Board for notation.
- 3) The Audit reports covering the following areas with relevant audit recommendations and management's responses in regards to any audit findings on the weaknesses in the systems and controls of the operations were presented to the AC for discussion:-
 - Reviewed the risk assessment template, control effectiveness & right use of marketing fund, low gross profit margin for Information Technology commercial products, extra incentives were given by vendors which encourage sales person to increase the sales for certain products might resulted to lower margin for the Company, and goods return processes presented by IAD; and
 - Baker Tilly presented their review report on usage of customer relationship management system, warranty claim management for VSTECS KU Sdn. Bhd. (formerly known as ECS KU Sdn. Bhd.), corporate governance compliance, ordering processing and billing, logistics management and delivery controls, and collection and credit control function.

Internal Audit Charter

The Internal Audit Charter ("IAC") should be regularly review by the AC and the IAC has been reviewed by the AC during the financial year and the same has been recommended to the Board for approval. Accordingly, the IAC was approved by the Board on 8 November 2018.

The IAC of the AC is available on the Company's website at www.vsteecs.com.my.

Assessment on adequacy and performance

The AC has conducted an assessment to assess the adequacy and performance of the Outsourced Internal Auditors and IAD for FY2018 based on the following main criteria:-

- (i) Qualification and Experience;
- (ii) Understanding;
- (iii) Charter and Structure;
- (iv) Skills and experiences;
- (v) Communication;
- (vi) Internal Audit Function;
- (vii) In-house IA Assessment;
- (viii) Outsourced IA Assessment; and
- (ix) Performance.

Upon evaluation, the AC concluded that the overall performance of the Outsourced Internal Auditors and IAD for FY2018 was "Satisfactory" and the AC was satisfied with the adequacy and performance of the Outsourced Internal Auditors and IAD during the financial period under review.

REPORT OF THE AUDIT COMMITTEE

cont'd

INTERNAL AUDIT FUNCTION AND ACTIVITIES *cont'd*

Resources

The IAD is headed by Mr. Ng Chee Mun, a Bachelor Degree holder in Accounting and an associate member of the Institute of Internal Auditors Malaysia and he is assisted by one (1) Executive.

Baker Tilly, the Outsourced Internal Auditors is headed by Mr. Kuan Yew Choong, a Chartered Accountant as the Engagement Partner. He is assisted by two (2) to three (3) staffs, depending on the auditable work scope, serving as the IA Engagement Team to the Company.

For FY2018, both the IAD personnel and the Baker Tilly Engagement Team personnel have affirmed to the AC that they were free from any relationships or conflicts of interest, which could impair their objectivity and independency.

Costs Incurred for FY2018

The total cost incurred for the internal audit function for FY2018 was RM211,544, segregated in the following manner:-

- 1) IAD – RM175,544 (FY 2017: RM193,097)
- 2) Baker Tilly – RM36,000 (FY 2017: RM36,000)

This Report of the AC is made in accordance with the Resolution of the Board of Directors passed on 29 March 2019.

OTHER INFORMATION

Required by the Main LR of Bursa Securities

In compliance with the Main LR of Bursa Securities, the following are provided:-

1. UTILISATION OF PROCEEDS

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

2. AUDIT AND NON-AUDIT FEES

For the financial year ended 31 December 2018, the External Auditors has rendered audit and non-audit services to the Company and The Group, a breakdown of which is listed as below for information:-

	Group RM	Company RM
Audit services rendered	222,000	81,000
Non-audit services rendered		
1. Report on Directors' Statement on Risk Management and Internal Control	10,000	10,000
2. Tax services provided by its local authorities	31,650	6,300
Total of Non-audit Fees	41,650	16,300

3. MATERIAL CONTRACTS AND CONTRACTS RELATING TO LOAN

None of the directors and/or major shareholders has any material contract with the Company and/or its subsidiaries either still subsisting at the end of the financial year ended 31 December 2018 or entered into since the end of the previous financial year.

4. DIRECTORS' TRAINING AND EDUCATION

The Directors attended numerous trainings during the financial year ended 31 December 2018 and the details of trainings are disclosed in the Corporate Governance Overview Statement on page 51 of this Annual Report.

OTHER INFORMATION

Required by the Main LR of Bursa Securities
cont'd

5. RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE

At the Extraordinary General Meeting of the Company held on 8 November 2018, the Company obtained a mandate from its shareholders for recurrent related party transactions (“RRPTs”) of a revenue or trading in nature with related parties.

In compliance with Paragraph 10.09(2)(b) and Paragraph 3.1.5 of Practice Note 12 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the details of RRPTs conducted during the financial year ended 31 December 2018 pursuant to the shareholders’ mandate are set out below:-

Transacting party within VSTECS Group	Transacting Related Party	Nature of transaction	Interested Directors/ Major Shareholders/ Persons Connected to Director or Major Shareholder (Interested Parties)	Estimated Aggregate Value as disclosed in the Circular dated 17 October 2018	Actual value transacted from the date of the last EGM on 8 November 2018 to LPD	Estimated Aggregate Value from the forthcoming Twenty-Third AGM until the next AGM
VSTECS Astar Sdn. Bhd. (formerly known as ECS Astar Sdn. Bhd.)	VST Computers (H.K.) Limited	Purchase of computer hardware and its related products such as networking switches, monitors, storage devices and peripherals by VSTECS Astar Sdn. Bhd., from VST Computers (H.K.) Limited	(i) VSTECS Holdings (Singapore) Limited (ii) VSTECS Holdings Limited (iii) Mr. Ong Wei Hiam (iv) Ms. Chow Ying Chi	RM20 million	NIL	NIL

Note:-

** VSTECS Astar Sdn. Bhd. (formerly known as ECS Astar Sdn. Bhd.) is a wholly-owned subsidiary of the Company.

6. SHARE ISSUANCE SCHEME FOR EMPLOYEES

The Group did not offer any share scheme for employees during the financial year ended 31 December 2018.

7. LIST OF PROPERTIES

The Group did not own any property of which its net book value is 5% or more of the consolidated total assets as at the end of the financial year ended 31 December 2018.

STATEMENT OF DIRECTORS' RESPONSIBILITY

In relation to the preparing of the financial statements

This statement is prepared as required by the Main Market Listing Requirements ("**Main LR**") of Bursa Malaysia Securities Berhad ("**Bursa Securities**").

The Directors are required to prepare annual financial statements which are in accordance with applicable approved accounting standards; to give a true and fair view of the state of affairs of The Group and the Company as at the end of the financial year; and of their results and their cash flows for that year then ended.

The Directors consider that in preparing the financial statements of The Group and the Company for the financial year ended 31 December 2018:-

- The Group and the Company have adopted appropriate accounting policies and applied them consistently;
- the statements are supported by reasonable and prudent judgements and estimates;
- all applicable approved accounting standards in Malaysia, including but not limited to Malaysian Financial Reporting Standards and International Financial Reporting Standards have been followed; and
- prepared the abovementioned financial statements on a going concern basis.

The Directors are also responsible for ensuring that The Group and the Company keep proper accounting records which disclose the financial position of The Group and of the Company with reasonable accuracy at any time, thus enabling the financial statements to be complied with the requirements of the Companies Act 2016 and have been made out in accordance with applicable Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for taking the necessary steps as are reasonably open to them to ensure appropriate systems are in place to safeguard the assets of The Group and of the Company, and to detect and prevent fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

This Statement on Directors' Responsibility is made in accordance with a resolution of the Board of Directors passed on 29 March 2019.



FINANCIAL STATEMENTS

Directors' Report	82-85	Notes to the Financial Statements	91-147
Statements of Financial Position	86	Statement by Directors	148
Statements of Profit or Loss and Other Comprehensive Income	87	Statutory Declaration	148
Statements of Changes in Equity	88	Independent Auditors' Report	149-152
Statements of Cash Flows	89-90		

DIRECTORS' REPORT

For the Year Ended 31 December 2018

The Directors have pleasure in submitting their report and the audited financial statements of The Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are as stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 6 to the financial statements.

CHANGE OF COMPANY NAME

On 30 November 2018, the Company changed its name from ECS ICT Berhad to VSTECS Berhad.

RESULTS

	Group	Company
	RM'000	RM'000
Profit for the year attributable to:		
Owners of the Company	24,604	8,857

RESERVES AND PROVISIONS

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

DIVIDENDS

Since the end of the previous financial year, the amount of dividends paid by the Company were as follows:

- i) In respect of the financial year ended 31 December 2017 as reported in the Directors' Report of that year:
 - a single tier final dividend of 2.5 sen per ordinary share, totalling RM4,500,000 declared on 28 February 2018 and paid on 13 June 2018.
- ii) In respect of the financial year ended 31 December 2018:
 - a single tier interim dividend of 2.5 sen per ordinary share, totalling RM4,500,000 declared on 8 November 2018 and paid on 19 December 2018.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2018 is a single tier dividend of 2.5 sen per ordinary share, subject to the approval of the shareholders at the forthcoming annual general meeting.

DIRECTORS' REPORT

For the Year Ended 31 December 2018
cont'd

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

Foo Sen Chin
Soong Jan Hsung
Tay Eng Hoe
Wong Heng Chong
Ahmad Subri bin Abdullah
Ho Chee Kit
Ong Wei Hiam
Chow Ying Chi

DIRECTORS OF SUBSIDIARIES

The Directors who served in the subsidiaries during the financial year until the date of this report are:

Foo Sen Chin
Soong Jan Hsung
Chan Puay Chai
Tee Ang Kuan

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			At 31.12.2018
	At 1.1.2018	Bought	Sold	
Foo Sen Chin				
<i>Own interest in the Company</i>				
- direct	-	99,000	-	99,000
- indirect	21,997,200	-	-	21,997,200
Soong Jan Hsung				
<i>Own interest in the Company</i>				
- direct	225,000	-	-	225,000
Tay Eng Hoe				
<i>Own interest in the Company</i>				
- direct	375,000	-	-	375,000
Wong Heng Chong				
<i>Own interest in the Company</i>				
- direct	225,000	-	-	225,000

None of the other Directors holding office at 31 December 2018 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' REPORT

For the Year Ended 31 December 2018
cont'd

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than those fees and other benefits included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have substantial financial interests in companies which traded with certain companies in The Group in the ordinary course of business as disclosed in Note 9 and Note 28 to the financial statements.

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

ISSUE OF SHARES AND DEBENTURES

There were no changes in the issued and paid-up capital of the Company during the financial year.

There were no debentures issued during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount of insurance effected for Directors and officers of the Company, together with its subsidiaries is RM2,000,000 with premium of RM7,800 a year. There was no indemnity given to the Directors, officers or auditors of the Company and its subsidiaries.

OTHER STATUTORY INFORMATION

Before the financial statements of The Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have 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:

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in The Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of The Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of The Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of The Group and of the Company misleading.

DIRECTORS' REPORT

For the Year Ended 31 December 2018
cont'd

OTHER STATUTORY INFORMATION *cont'd*

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

- i) any charge on the assets of The Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of The Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in The Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of The Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of The Group and of the Company for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 18 to the financial statements.

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

Foo Sen Chin
Director

Soong Jan Hsung
Director

Petaling Jaya,

Date: 29 March 2019

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Assets					
Plant and equipment	3	2,418	2,819	648	932
Investment properties	4	9,416	-	-	-
Intangible asset	5	571	571	-	-
Investments in subsidiaries	6	-	-	77,022	77,022
Investment in a joint venture	7	13,410	12,834	12,170	12,170
Investment in club membership		62	62	-	-
Deferred tax assets	13	1,249	808	-	-
Total non-current assets		27,126	17,094	89,840	90,124
Inventories	8	132,748	122,980	-	-
Receivables and deposits	9	263,791	281,163	25,685	27,965
Prepayments		333	466	98	139
Cash and cash equivalents	10	54,541	50,526	3,138	659
Total current assets		451,413	455,135	28,921	28,763
Total assets		478,539	472,229	118,761	118,887
Equity					
Share capital	11	90,000	90,000	90,000	90,000
Reserves	12	198,096	182,492	27,750	27,893
Total equity attributable to owners of the Company		288,096	272,492	117,750	117,893
Liabilities					
Deferred tax liabilities	13	-	-	29	95
Total non-current liabilities		-	-	29	95
Payables and accruals	14	186,367	193,632	846	775
Contract liabilities	15	1,906	2,904	-	-
Derivative financial liabilities	16	839	2,098	-	-
Tax payable		1,331	1,103	136	124
Total current liabilities		190,443	199,737	982	899
Total liabilities		190,443	199,737	1,011	994
Total equity and liabilities		478,539	472,229	118,761	118,887

The notes on pages 91 to 147 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Revenue	17	1,632,323	1,838,259	11,102	11,119
Cost of sales		(1,545,538)	(1,750,789)	-	-
Gross profit		86,785	87,470	11,102	11,119
Other (expense)/income		(135)	1,354	-	-
Distribution expenses		(35,683)	(34,276)	-	-
Administrative expenses		(20,795)	(21,705)	(3,105)	(3,207)
Results from operating activities	18	30,172	32,843	7,997	7,912
Finance income	19	1,928	2,136	1,325	1,646
Finance costs	20	(1)	-	-	-
Net finance income		1,927	2,136	1,325	1,646
Share of profit of equity accounted joint venture, net of tax		676	664	-	-
Profit before tax		32,775	35,643	9,322	9,558
Tax expense	22	(8,171)	(9,375)	(465)	(466)
Profit for the year/Total comprehensive income for the year attributable to owners of the Company		24,604	26,268	8,857	9,092
Earnings per share attributable to owners of the Company:					
Basic (sen)	23	13.7	14.6		

The notes on pages 91 to 147 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 31 December 2018

	Note	← Attributable to owners of the Company →			Total equity RM'000
		Share capital RM'000	Merger reserve RM'000	Retained earnings RM'000	
Group					
At 1 January 2017		90,000	-	166,124	256,124
Profit for the year/Total comprehensive income for the year		-	-	26,268	26,268
Dividends to owners of the Company	24	-	-	(9,900)	(9,900)
At 31 December 2017/1 January 2018		90,000	-	182,492	272,492
Profit for the year/Total comprehensive income for the year		-	-	24,604	24,604
Dividends to owners of the Company	24	-	-	(9,000)	(9,000)
At 31 December 2018		90,000	-	198,096	288,096
		Note 11		Note 12.2	
Company					
At 1 January 2017		90,000	22,961	5,740	118,701
Profit for the year/Total comprehensive income for the year		-	-	9,092	9,092
Dividends to owners of the Company	24	-	-	(9,900)	(9,900)
At 31 December 2017/1 January 2018		90,000	22,961	4,932	117,893
Profit for the year/Total comprehensive income for the year		-	-	8,857	8,857
Dividends to owners of the Company	24	-	-	(9,000)	(9,000)
At 31 December 2018		90,000	22,961	4,789	117,750
		Note 11	Note 12.1		

The notes on pages 91 to 147 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Cash flows from operating activities					
Profit before tax		32,775	35,643	9,322	9,558
Adjustments for:					
Depreciation of plant and equipment		1,276	1,324	423	399
Depreciation of investment properties		24	-	-	-
Gain on disposal of plant and equipment		(43)	(107)	-	-
Gain on foreign exchange					
- Unrealised		1,793	(5,027)	-	-
Finance costs		1	-	-	-
Finance income		(1,928)	(2,136)	(1,325)	(1,646)
Dividend income from subsidiaries		-	-	(9,100)	(9,300)
Dividend income from a joint venture		-	-	(100)	-
Plant and equipment written off		1	1	-	-
Fair value changes on financial instruments		(1,259)	4,437	-	-
Share of profit of equity-accounted joint venture, net of tax		(676)	(664)	-	-
Operating profit/(loss) before changes in working capital		31,964	33,471	(780)	(989)
Changes in working capital:					
Inventories		(9,768)	(9,533)	-	-
Receivables, deposits and prepayments		10,639	(13,857)	80	(73)
Payables and accruals		(6,154)	(41,980)	48	(38)
Contract liabilities		(998)	2,904	-	-
Cash generated from/(used in) operations		25,683	(28,995)	(652)	(1,100)
Tax paid		(8,384)	(9,413)	(519)	(476)
Net cash generated from/(used in) operating activities		17,299	(38,408)	(1,171)	(1,576)
Cash flows from investing activities					
Acquisition of joint venture company		-	(12,170)	-	(12,170)
Acquisition of investment properties	(i)	(5,263)	-	-	-
Acquisition of plant and equipment		(880)	(1,016)	(139)	(156)
Proceeds from disposal of plant and equipment		47	137	-	-
Dividend income from subsidiaries		-	-	9,100	9,300
Dividend income from a joint venture		100	-	100	-
Net cash (used in)/generated from investing activities		(5,996)	(13,049)	9,061	(3,026)

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2018
cont'd

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Cash flows from financing activities					
Repayment from/(Advances to) subsidiaries		-	-	2,264	(6,029)
Interest paid		(1)	-	-	-
Interest received		1,713	1,668	1,325	1,646
Dividends paid to owners of the Company		(9,000)	(9,900)	(9,000)	(9,900)
Net cash used in financing activities		(7,288)	(8,232)	(5,411)	(14,283)
Net increase/(decrease) in cash and cash equivalents		4,015	(59,689)	2,479	(18,885)
Cash and cash equivalents at 1 January		50,526	110,215	659	19,544
Cash and cash equivalents at 31 December	(ii)	54,541	50,526	3,138	659

(i) Non-cash transaction

During the financial year, the Group acquired investment properties with an aggregated cost of RM9,440,000 (2017: RM nil) of which RM4,177,000 (2017: RM nil) was through settlement of an outstanding debt from a debtor.

(ii) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances	10	53,953	21,681	3,138	445
Deposits with licensed banks	10	-	28,273	-	214
Liquid investments	10	588	572	-	-
		54,541	50,526	3,138	659

The notes on pages 91 to 147 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

VSTECS Berhad (formerly known as ECS ICT Berhad) is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business

Lot 3, Jalan Teknologi 3/5
Taman Sains Selangor
Kota Damansara
47810 Petaling Jaya

Registered office

Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Wilayah Persekutuan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”) and The Group’s interest in a joint venture. The financial statements of the Company as at and for the financial year ended 31 December 2018 do not include any other entities.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are as stated in Note 6 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 29 March 2019.

1. BASIS OF PREPARATION

(a) Statement of compliance

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

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

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

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

1. BASIS OF PREPARATION *cont'd*

(a) Statement of compliance *cont'd*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

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

- MFRS 17, *Insurance Contracts*

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

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

The Group and Company plan to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2019 for those accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019.
- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to The Group and the Company.

The initial application of the accounting standards, interpretations or amendments are not expected to have any material financial impacts to the current period and prior period financial statements of The Group and the Company except as mentioned below:

MFRS 16, Leases

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

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Group has assessed the estimated impact that the initial application of MFRS 16 will have on its consolidated financial statements as at 1 January 2019 as below. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change because:

- the Group has not finalised the testing and assessment of controls over its new accounting system;
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

1. BASIS OF PREPARATION *cont'd*

(a) Statement of compliance *cont'd*

MFRS 16, Leases *cont'd*

Group	As reported at 31 December 2018 RM'000	Estimated adjustments due to adoption of MFRS 16 RM'000	Estimated adjusted opening balance at 1 January 2019 RM'000
Right-of-use assets	-	3,957	3,957
Lease liabilities	-	3,957	3,957

(b) Basis of measurement

The financial statements of The Group and the Company have been prepared on the historical cost basis other than as disclosed in the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in Note 5 - Measurement of the recoverable amounts of cash-generating units.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by The Group entities, unless otherwise stated.

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

- (i) financial instruments;
- (ii) revenue recognition; and
- (iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 31.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(a) Basis of consolidation

(i) 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 the control ceases.

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

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

(ii) Business combinations

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

For new acquisitions, The Group measures 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.

(iii) Joint arrangements

Joint arrangements are arrangements of which The Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when The Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(a) Basis of consolidation *cont'd*

(iii) Joint arrangements *cont'd*

- A joint arrangement is classified as “joint venture” when The Group or the Company has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method. Investments in joint venture are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(iv) Acquisition of non-controlling interests

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

(v) Loss of control

Upon the loss of control of a subsidiary, The Group derecognises the assets and liabilities of the 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.

(vi) Transactions eliminated on consolidation

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

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

(b) Foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting 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, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments

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

(i) Recognition and initial measurement

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

Current financial year

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

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

Previous financial year

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

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

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

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

(a) Amortised cost

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial assets *cont'd*

Current financial year *cont'd*

(a) **Amortised cost** *cont'd*

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(k)(i)) where the effective interest rate is applied to the amortised cost.

(b) **Fair value through other comprehensive income**

Equity instruments

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

(c) **Fair value through profit or loss**

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

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

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (see Note 2(k)(i)).

Previous financial year

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial assets *cont'd*

Previous financial year *cont'd*

(a) **Financial assets at fair value through profit or loss** *cont'd*

Derivatives that were 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 were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) **Loans and receivables**

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

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

(c) **Available-for-sale financial assets**

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

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

On derecognition, the cumulative gain or loss recognised in other comprehensive income was reclassified from equity into profit or loss. Interest calculated for a debt instrument using the effective interest method was recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to impairment assessment (see Note 2(k)(i)).

Financial liabilities

Current financial year

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

(a) **Fair value through profit or loss**

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments *cont'd*

(ii) Financial instrument categories and subsequent measurement *cont'd*

Financial liabilities *cont'd*

Current financial year *cont'd*

(a) Fair value through profit or loss *cont'd*

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

- (a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- (b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to The Group's key management personnel; or
- (c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, The Group and the Company recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

(b) Amortised cost

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

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

Previous financial year

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

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

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments that did not have a quoted price in an active market for identical instruments whose fair values otherwise cannot be reliably measured were measured at cost.

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments *cont'd*

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date or settlement date accounting in the current year.

Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
- (b) 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.

Settlement date accounting refers to:

- (a) the recognition of an asset on the day it is received by The Group or the Company, and
- (b) derecognition of an asset and recognition of any gain or loss on disposal on the day that is delivered by The Group or the Company.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is accounted in the same way as it accounts for the acquired asset.

Generally, The Group or the Company applies settlement date accounting unless otherwise stated for the specific class of asset.

(iv) 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.

Current financial year

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

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

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

Previous financial year

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments *cont'd*

(v) 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. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. 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.

(d) Plant and equipment

(i) Recognition and measurement

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

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

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 plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

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

(ii) Subsequent costs

The cost of replacing a component of an item of 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 plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(d) Plant and equipment *cont'd*

(iii) Depreciation *cont'd*

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

• Office equipment	5 years
• Office renovation	5 years
• Motor vehicles	5 years
• Furniture and fittings	4 years

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

(e) Leased assets

Operating leases

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 cost 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.

(f) Intangible assets

Goodwill

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

(g) Investment properties

Investment properties carried at cost

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

Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for plant and equipment as stated in accounting policy Note 2(d).

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of 42 years for buildings. Freehold land is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(g) Investment properties *cont'd*

Investment properties carried at cost *cont'd*

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 in profit or loss in the period in which the item is derecognised.

The fair values are based on the open market value method, and an assessment of the prevailing property market rate. The fair value of the investment properties are disclosed in Note 4.

(h) Inventories

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

The cost of inventories is measured based on first in first out, 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.

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

(i) Contract liability

A contract liability is stated at cost and represents the obligation of The Group or the Company to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investment 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 statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(k) Impairment

(i) Financial assets

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

Current financial year

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

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(k) Impairment *cont'd*

(i) Financial assets *cont'd*

Current financial year *cont'd*

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 historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events 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.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, The Group and the Company 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 the financial asset have occurred.

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

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss and investments in subsidiaries and a joint venture) were assessed at each reporting date whether there was any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, were not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset was estimated.

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

An impairment loss in respect of available-for-sale financial assets was recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset had been recognised in other comprehensive income, the cumulative loss in other comprehensive income was reclassified from equity to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(k) Impairment *cont'd*

(i) Financial assets *cont'd*

Previous financial year *cont'd*

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

(ii) Other assets

The carrying amounts of other assets (except for inventories and deferred tax asset) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 cash-generating unit.

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

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

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(l) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(iii) Distributions of assets to owners of the Company

The Group measures a liability to distribute assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, The Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

(m) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

The Group's contributions to 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 reduction in future payments is available.

(n) 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.

(o) Revenue and other income

(i) Revenue

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Group or the Company recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(o) Revenue and other income *cont'd*

(i) Revenue *cont'd*

The Group or the Company transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided as The Group or the Company performs;
- (b) The Group's or the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) The Group's or the Company's performance does not create an asset with an alternative use and The Group or the Company has an enforceable right to payment for performance completed to date.

(ii) Rental income

Rental income from investment properties are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from sub-leased property is recognised as other income.

(iii) Dividend income

Dividend income is recognised in profit or loss on the date that The Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(p) Borrowing costs

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

(q) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(q) Income tax *cont'd*

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

(r) Earnings per ordinary share

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

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(s) 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 Officer 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.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(t) Contingencies

Contingent liabilities

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

(u) 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 uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can 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 recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

3. PLANT AND EQUIPMENT

	Office equipment RM'000	Office renovation RM'000	Motor vehicles RM'000	Furniture and fittings RM'000	Total RM'000
Group					
Cost					
At 1 January 2017	11,085	306	1,954	2,532	15,877
Additions	515	147	328	26	1,016
Disposals	(181)	-	(319)	-	(500)
Written off	(74)	-	-	-	(74)
At 31 December 2017/ 1 January 2018	11,345	453	1,963	2,558	16,319
Additions	495	7	344	34	880
Disposals	(5)	-	(184)	-	(189)
Written off	(26)	-	-	-	(26)
At 31 December 2018	11,809	460	2,123	2,592	16,984
Accumulated depreciation					
At 1 January 2017	8,796	234	1,812	1,877	12,719
Depreciation for the year	897	30	184	213	1,324
Disposals	(151)	-	(319)	-	(470)
Written off	(73)	-	-	-	(73)
At 31 December 2017/ 1 January 2018	9,469	264	1,677	2,090	13,500
Depreciation for the year	882	31	153	210	1,276
Disposals	(1)	-	(184)	-	(185)
Written off	(25)	-	-	-	(25)
At 31 December 2018	10,325	295	1,646	2,300	14,566
Carrying amounts					
At 1 January 2017	2,289	72	142	655	3,158
At 31 December 2017/ 1 January 2018	1,876	189	286	468	2,819
At 31 December 2018	1,484	165	477	292	2,418

NOTES TO THE FINANCIAL STATEMENTS

cont'd

3. PLANT AND EQUIPMENT *cont'd*

	Office equipment RM'000
Company	
Cost	
At 1 January 2017	2,094
Additions	156
At 31 December 2017/1 January 2018	2,250
Additions	139
At 31 December 2018	2,389
Accumulated depreciation	
At 1 January 2017	919
Depreciation for the year	339
At 31 December 2017/1 January 2018	1,318
Depreciation for the year	423
At 31 December 2018	1,741
Carrying amounts	
At 1 January 2017	1,175
At 31 December 2017/1 January 2018	932
At 31 December 2018	648

NOTES TO THE FINANCIAL STATEMENTS

cont'd

4. INVESTMENT PROPERTIES

	Freehold lands RM'000	Buildings RM'000	Total RM'000
Group			
Cost			
At 1 January 2017/31 December 2017/1 January 2018	-	-	-
Additions	8,260	1,180	9,440
At 31 December 2018	8,260	1,180	9,440
Accumulated depreciation			
At 1 January 2017/31 December 2017/1 January 2018	-	-	-
Charge for the year	-	24	24
At 31 December 2018	-	24	24
Carrying amounts			
At 1 January 2017/31 December 2017/1 January 2018	-	-	-
At 31 December 2018	8,260	1,156	9,416
Fair value			
At 31 December 2018	10,500	1,500	12,000

Investment properties comprise two units of 2-storey semi-detached industrial buildings erected on two freehold lands measuring 1,784 square meters. The properties were acquired from a debtor to settle an outstanding account of RM4,177,000 on 27 February 2018 for full settlement of the outstanding debt.

The properties are currently vacant and free from encumbrance.

Fair value information

The fair value of investment properties is categorised as level 2 fair value. The Group engaged Jasa Land Property Consultants (SEL) Sdn. Bhd., an independent professional valuation firm to perform the valuation of the investment properties. The last valuation was performed on 13 February 2019 for all investment properties using the open market value method, and an assessment of the prevailing property market rate.

5. INTANGIBLE ASSET

Goodwill

	Note	Group 2018 RM'000	2017 RM'000
At cost	5.1	571	571

NOTES TO THE FINANCIAL STATEMENTS

cont'd

5. INTANGIBLE ASSET *cont'd*

5.1 Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to The Group's operating segments which represent the lowest level within The Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the cash-generating unit was based on its value in use. The carrying amount of the unit was determined to be approximately its recoverable amount and no impairment loss was recognised.

Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on past experience, actual operating results and one-year business plan in current year. Cash flows for the one-year period were projected using a constant growth rate of 10% (2017: 6%), which does not exceed the long-term average growth rate of the industry.

The values assigned to the key assumptions represent management's assessment of future trends in the IT industry and are based on both external sources and internal sources (historical data).

The estimate of value in use was determined using a pre-tax discount rate of 5.5% (2017: 5.5%).

6. INVESTMENTS IN SUBSIDIARIES

	Company	
	2018 RM'000	2017 RM'000
At cost	77,022	77,022

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2018 %	2017 %
VSTECS Astar Sdn. Bhd. (Formerly known as ECS Astar Sdn. Bhd.)	Malaysia	All these companies are engaged in the marketing of computers, peripherals, software and the provision of computer maintenance services.	100	100
VSTECS Pericomp Sdn. Bhd. (Formerly known as ECS Pericomp Sdn. Bhd.)	Malaysia		100	100
VSTECS KU Sdn. Bhd. (Formerly known as ECS KU Sdn. Bhd.)	Malaysia		100	100
VSTECS Kush Sdn. Bhd. (Formerly known as ECS Kush Sdn. Bhd.)	Malaysia		Provision of management services and letting of properties.	100

NOTES TO THE FINANCIAL STATEMENTS

cont'd

7. INVESTMENT IN A JOINT VENTURE

On 26 July 2017, the Company entered into a Share Sale Agreement with Dato' Teo Chiang Quan to acquire 1,000,000 ordinary shares in Enrich Platinum Sdn. Bhd. ("EP"), representing 50% of the total issued share capital of EP, for a total purchase consideration of RM12,170,000.

With the completion of the above Share Sale Agreement on 12 September 2017, EP became a 50% owned joint venture company. EP is not audited by member firms of KPMG International.

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At cost				
Unquoted shares	12,170	12,170	12,170	12,170
Share of post-acquisition reserves	1,240	664	-	-
	13,410	12,834	12,170	12,170

EP, the only joint venture in which The Group participates, is principally engaged in investment holding and business of providing property management services.

The following table summarises the financial information of EP, as adjusted for any differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of The Group's interest in EP, which is accounted for using the equity method.

	Group	
	1.1.2018 to 31.12.2018 RM'000	12.9.2017 to 31.12.2017 RM'000
Percentage of ownership interest	50%	50%
Percentage of voting interest	50%	50%
Summarised financial information		
Non-current assets	29,000	29,000
Current assets	229	135
Non-current liabilities	(860)	(1,595)
Current liabilities	(1,549)	(1,872)
Net Assets	26,820	25,668
Year/Period ended		
Profit for the year/period and total comprehensive income	1,353	374
Included in the total comprehensive income are:		
Revenue	1,974	557
Interest expense	(59)	(22)
Income tax expense	(406)	(116)

NOTES TO THE FINANCIAL STATEMENTS

cont'd

7. INVESTMENT IN A JOINT VENTURE *cont'd*

	Group	
	2018 RM'000	2017 RM'000
Reconciliation of net assets to carrying amount as at 31 December		
Group's share of net assets	13,410	12,834
Group's share of results for the year/period ended 31 December	676	664
Dividend received by The Group	100	-

In the previous financial year, the measurement to fair value of The Group's interest in the joint venture resulted in a gain of RM477,000 (RM12,647,000 less cost of investment of joint venture at acquisition date of RM12,170,000) which has been recognised in share of profit of equity accounted joint venture, net of tax in the consolidated statement of profit and loss and other comprehensive income.

8. INVENTORIES

	Group	
	2018 RM'000	2017 RM'000
Finished goods	129,441	121,246
Goods-in-transit	3,307	1,734
	132,748	122,980
Recognised in profit or loss:		
Inventories recognised as cost of sales	1,570,367	1,792,018
Write-down to net realisable value	442	207
Reversal of write-down	-	(59)

The write-down and reversal are included in cost of sales.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

9. RECEIVABLES AND DEPOSITS

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade					
Receivables		251,838	268,158	-	-
Less: Impairment loss	9.1	(682)	(598)	-	-
		251,156	267,560	-	-
Amount due from subsidiaries	9.2	-	-	868	604
		251,156	267,560	868	604
Non-trade					
Other receivables		11,333	11,767	4	18
Deposits	9.3	1,302	1,836	5	30
Amount due from subsidiaries	9.4	-	-	24,808	27,313
		12,635	13,603	24,817	27,361
		263,791	281,163	25,685	27,965

9.1 Impairment loss

During the financial year, trade receivables amounting to RM323,000 (2017: RM33,000) was written off against the impairment loss.

9.2 Amount due from subsidiaries (Trade)

The amount due from subsidiaries is unsecured, non-interest bearing and subject to normal trade terms.

9.3 Deposits

Included in deposits of the Group is an amount of RM960,000 (2017: RM960,000) paid as rental security deposits to the joint venture.

9.4 Amount due from subsidiaries (Non-trade)

Included in the amount due from subsidiaries is a non-trade short-term loan of RM24,600,000 (2017: RM27,300,000) which is unsecured, bears interest at 5.5% (2017: 5.5%) per annum and repayable on demand.

10. CASH AND CASH EQUIVALENTS

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances		53,953	21,681	3,138	445
Deposits with licensed banks		-	28,273	-	214
Liquid investment	10.1	588	572	-	-
		54,541	50,526	3,138	659

NOTES TO THE FINANCIAL STATEMENTS

cont'd

10. CASH AND CASH EQUIVALENTS *cont'd*

10.1 Liquid investment

Liquid investment relates to the investment account which has a face value of RM1 per unit.

11. SHARE CAPITAL

	Group and Company			
	Amount	Number of shares	Amount	Number of shares
	2018	2018	2017	2017
	RM'000	'000	RM'000	'000
Issued and fully paid:				
Ordinary shares	90,000	180,000	90,000	180,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

12. RESERVES

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Merger reserves	12.1	-	-	22,961	22,961
Retained earnings	12.2	198,096	182,492	4,789	4,932
		198,096	182,492	27,750	27,893

12.1 Merger reserve

Company

The merger reserve of the Company represents the premium arising on the shares issued in respect of the subsidiaries accounted for under the merger method of accounting which is credited to the merger reserve account.

12.2 Retained Earnings

Group

A merger deficit amounting to RM44,561,000 is set off against the reserves of The Group. The merger deficit arose from The Group's internal rationalisation exercise which involved related parties under common control. The amount represents the excess of the consideration given over the accumulated value of the share capitals of the combining entities.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

13. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Group						
Plant and equipment	-	40	(136)	(240)	(136)	(200)
Provisions	1,230	1,150	-	-	1,230	1,150
Other items	155	-	-	(142)	155	(142)
Tax assets/(liabilities)	1,385	1,190	(136)	(382)	1,249	808
Set off of tax	(136)	(382)	136	382	-	-
Net tax assets	1,249	808	-	-	1,249	808
Company						
Plant and equipment	-	-	(51)	(118)	(51)	(118)
Provisions	22	23	-	-	22	23
Tax assets/(liabilities)	22	23	(51)	(118)	(29)	(95)
Set off of tax	(22)	(23)	22	23	-	-
Net tax liabilities	-	-	(29)	(95)	(29)	(95)

Movement in temporary differences during the year

	At 1.1.2017 RM'000	Recognised in profit or loss (Note 22) RM'000	At 31.12.2017/ 1.1.2018 RM'000	Recognised in profit or loss (Note 22) RM'000	At 31.12.2018 RM'000
	Group				
Plant and equipment	(174)	(26)	(200)	64	(136)
Provisions	1,600	(450)	1,150	80	1,230
Other items	(41)	(101)	(142)	297	155
	1,385	(577)	808	441	1,249
Company					
Plant and equipment	(122)	4	(118)	67	(51)
Provisions	32	(9)	23	(1)	22
	(90)	(5)	(95)	66	(29)

NOTES TO THE FINANCIAL STATEMENTS

cont'd

14. PAYABLES AND ACCRUALS

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Trade					
Trade payables		143,799	152,547	-	-
Deferred revenue		114	153	-	-
Amount due to subsidiaries		-	-	-	10
		143,913	152,700	-	10
Non-trade					
Other payables and accrued expenses	14.1	42,454	40,932	812	764
Amount due to subsidiaries	14.2	-	-	34	1
		42,454	40,932	846	765
		186,367	193,632	846	775

14.1 Other payables and accrued expenses

Included in other payables and accrued expenses of The Group is accrual for advertisement and promotion amounting to RM17,762,000 (2017: RM16,993,000).

14.2 Amount due to subsidiaries (Non-trade)

The amount due to subsidiaries is unsecured, non-interest bearing and are repayable on demand.

15. CONTRACT WITH CUSTOMERS

Contract liabilities

	2018 RM'000	2017 RM'000 Restated
Group		
Contract liabilities	1,906	2,904

Contract liabilities primarily relate to credit notes not yet issued to customers arising from the marketing and promotional activities.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

16. DERIVATIVE FINANCIAL LIABILITIES

Derivatives held for trading at fair value through profit or loss:

	2018			2017		
	Nominal value	Assets	Liabilities	Nominal value	Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
Forward exchange contracts	79,646	-	839	88,480	-	2,098

Forward exchange contracts are used to manage the foreign currency exposure arising from The Group's receivables and payables denominated in currencies other than the functional currency of the Group entities. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward contracts are rolled over at maturity.

17. REVENUE

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
			Restated		
Revenue from contracts with customers					
Sale of goods		1,630,769	1,836,964	-	-
Services		1,554	1,295	1,235	1,225
	17.1	1,632,323	1,838,259	1,235	1,225
Other revenue					
Rental income from:					
- subsidiaries		-	-	667	594
Dividend income from:					
- subsidiaries		-	-	9,100	9,300
- joint venture		-	-	100	-
Total revenue		1,632,323	1,838,259	11,102	11,119

17.1 Nature of goods and services

The following information reflects the typical transactions of The Group:

Type of product/ service	Nature and timing of satisfaction of performance obligations including significant payment terms
Sale of goods	Revenue is recognised when the goods are delivered and accepted by customers. Normal credit term is 30 days. Rebates are given to customers based on various marketing programs.
Services	Revenue is recognised overtime as the services are performed. Credit period is normally 30 days.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

18. RESULTS FROM OPERATING ACTIVITIES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Results from operating activities are arrived at after charging:				
Auditors' remuneration				
- Audit fees				
KPMG in Malaysia	222	230	81	96
- Non-audit fees				
KPMG in Malaysia	10	10	10	10
Local affiliates of KPMG in Malaysia	32	31	6	6
Depreciation of plant and equipment	1,276	1,324	423	399
Depreciation of investment properties	24	-	-	-
Fair value loss on financial instruments	-	4,437	-	-
Impairment loss on trade receivables	664	-	-	-
Inventories written down	442	207	-	-
Loss on foreign exchange (net):				
- Realised	-	-	-	1
- Unrealised	1,793	-	-	-
Plant and equipment written off	1	1	-	-
Personnel expenses (including key management personnel):				
- Contributions to state plans	3,017	2,787	100	93
- Wages, salaries and others	33,137	33,309	921	933
Rental expense:				
- Office rental	1,499	1,486	18	18
- Warehouse rental	651	640	-	-
and after crediting:				
Bad debts recovered	17	11	-	-
Dividend income from joint venture	100	-	100	-
Dividend income from subsidiaries (unquoted)	-	-	9,100	9,300
Fair value gain on financial instruments	1,259	-	-	-
Gain on disposal of plant and equipment	43	107	-	-
Gain on foreign exchange (net):				
- Realised	329	641	-	-
- Unrealised	-	5,027	-	-
Rental income	-	-	667	594
Reversal of impairment loss on trade receivables	-	230	-	-
Reversal of write-down of inventories	-	59	-	-

NOTES TO THE FINANCIAL STATEMENTS

cont'd

19. FINANCE INCOME

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest income of financial assets at fair value through profit or loss	215	468	-	-
Interest income of financial assets that are not at fair value through profit or loss:				
- Recognised before impairment	1,713	1,668	1,325	1,646
	1,928	2,136	1,325	1,646

20. FINANCE COSTS

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest expense of financial liabilities that are not at fair value through profit or loss:				
- Overdraft	1	-	-	-
	1	-	-	-

21. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Directors				
- Fees	457	414	445	402
- Remuneration	3,482	4,775	33	33
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	82	83	-	-
	4,021	5,272	478	435
Other key management personnel				
- Remuneration	1,413	1,360	260	247
- Contributions to state plans	216	235	37	37
- Other short-term employee benefits	475	687	63	70
	2,104	2,282	360	354
	6,125	7,554	838	789

Other key management personnel comprises persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

22. TAX EXPENSE

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Current tax expense				
- Current year	8,775	8,562	524	485
- (Over)/Under provision in prior year	(163)	236	7	(24)
	8,612	8,798	531	461
Deferred tax expense				
- Origination and reversal of temporary differences	(234)	591	(56)	(34)
- (Over)/Under provision in prior year	(207)	(14)	(10)	39
	(441)	577	(66)	5
	8,171	9,375	465	466
Reconciliation of tax expense				
Profit for the year	24,604	26,268	8,857	9,092
Tax expense	8,171	9,375	465	466
Profit excluding tax	32,775	35,643	9,322	9,558
Tax at Malaysian tax rate of 24% (2017: 24%)	7,866	8,554	2,237	2,294
Non-deductible expenses	935	938	465	474
Non-taxable income	(98)	(294)	(2,234)	(2,317)
Tax effect on share of results of joint venture	(162)	(45)	-	-
	8,541	9,153	468	451
(Over)/Under provision of tax expense in prior year	(163)	236	7	(24)
(Over)/Under provision of deferred tax expense in prior year	(207)	(14)	(10)	39
	8,171	9,375	465	466

NOTES TO THE FINANCIAL STATEMENTS

cont'd

23. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share ("EPS") at 31 December 2018 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2018 RM'000	2017 RM'000
Profit attributable to owners of the Company	24,604	26,268
	'000	'000
Weighted average number of ordinary shares at 31 December	180,000	180,000
Basic earnings per ordinary share (sen)	13.7	14.6

Diluted EPS is not applicable as there were no potential ordinary shares in issue for the current financial year.

24. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2018			
Final 2017 ordinary - single tier	2.5	4,500	13 June 2018
Interim 2018 ordinary - single tier	2.5	4,500	19 December 2018
Total		9,000	
2017			
Final 2016 ordinary - single tier	3.0	5,400	15 June 2017
Interim 2017 ordinary - single tier	2.5	4,500	14 December 2017
Total		9,900	

After the end of the reporting period, the following dividend was proposed by the Directors. These dividends will be recognised in subsequent financial period upon approval of the shareholders at the forthcoming annual general meeting.

	Sen per share	Total amount RM'000
Final 2018 ordinary - single tier	2.5	4,500

NOTES TO THE FINANCIAL STATEMENTS

cont'd

25. OPERATING SEGMENTS

The Group has three reportable segments, as described below, which are The Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, The Group's Chief Executive Officer reviews internal management reports at least on a quarterly basis. The following summary describes the operations in each of The Group's reportable segments:

- | | | |
|-------|--------------------|---|
| (i) | ICT Distribution | Distribution of volume ICT products to resellers, comprising mainly retailers |
| (ii) | Enterprise Systems | Distribution of value ICT products to resellers, comprising mainly SI and corporate dealers |
| (iii) | ICT Services | Provision of ICT services |

Other non-reportable segments comprise management services and investment holding. None of these segments met the quantitative thresholds for reporting segments in 2018 and 2017.

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by The Group's Chief Executive Officer, who is The Group's Chief Operating Decision Maker. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

The total of segment assets is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by The Group's Chief Executive Officer. Segment total assets is used to measure the return on assets of each segment.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to The Group's Chief Executive Officer. Hence, no disclosure is made on segment liability.

Segment capital expenditure

Segment capital expenditure is the total cost incurred during the financial year to acquire plant and equipment, and other intangible assets other than goodwill.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

25. OPERATING SEGMENTS *cont'd*

25.1 Segmental information for The Group is presented as follows:

	ICT distribution		Enterprise Systems		ICT services		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	Restated		Restated		Restated		Restated	
Segment profit	16,512	22,420	13,825	10,276	783	718	31,120	33,414
Included in the measure of segment profit are:								
- Depreciation of plant and equipment	(195)	(205)	(127)	(195)	(20)	(21)	(342)	(421)
- Depreciation of investment properties	(19)	-	(4)	-	(1)	-	(24)	-
- Plant and equipment written off	-	(1)	-	(5)	-	-	-	(6)
- Finance costs	(1,657)	(1,643)	(333)	-	(23)	-	(2,013)	(1,643)
- Finance income	372	232	1,960	1,664	210	179	2,542	2,075
Segment assets	328,783	349,270	142,490	122,943	3,432	7,096	474,705	479,309
Revenue from external customers	1,137,373	1,419,911	455,092	382,503	39,858	35,845	1,632,323	1,838,259
Inter-segment revenue	16,161	39,461	1,316	2,225	5,280	3,417	22,757	45,103

25.2 Disaggregation of revenue

	ICT distribution		Enterprise Systems		ICT services		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	Restated		Restated		Restated		Restated	
Major product and service lines								
- Desktop, PC, notebooks, mobility devices and peripherals	1,137,373	1,419,911	-	-	-	-	1,137,373	1,419,911
- Server, storage, software and networking products	-	-	455,092	382,503	-	-	455,092	382,503
- Services and maintenance	-	-	-	-	39,858	35,845	39,858	35,845
	1,137,373	1,419,911	455,092	382,503	39,858	35,845	1,632,323	1,838,259
Timing								
- At a point in time	1,137,373	1,419,911	455,092	382,503	38,304	34,550	1,630,769	1,836,964
- Over time	-	-	-	-	1,554	1,295	1,554	1,295
	1,137,373	1,419,911	455,092	382,503	39,858	35,845	1,632,323	1,838,259

NOTES TO THE FINANCIAL STATEMENTS

cont'd

25. OPERATING SEGMENTS *cont'd*

25.3 Reconciliations of reportable segment revenues, profit or loss, assets and other material items

	Group	
	2018 RM'000	2017 RM'000
Total profit for the reportable segments	31,120	33,414
Other non-reportable segments profit	10,858	11,524
Elimination of inter-segments profit	(9,203)	(9,295)
Consolidated profit before tax	32,775	35,643

	External revenue RM'000	Depreciation of plant and equipment RM'000	Depreciation of investment properties RM'000	Finance costs RM'000	Finance income RM'000	Segment assets RM'000	Additions to non- current assets RM'000
Group							
2018							
Total reportable segments	1,655,080	(343)	(24)	(2,013)	2,542	474,705	225
Other non-reportable segments	15,929	(939)	-	-	1,398	127,459	10,101
Elimination of inter-segment transactions or balances	(38,686)	6	-	2,012	(2,012)	(123,625)	(6)
Consolidated total	1,632,323	(1,276)	(24)	(1)	1,928	478,539	10,320
2017 (Restated)							
Total reportable segments	1,883,362	(421)	-	1,643	2,075	479,309	500
Other non-reportable segments	14,793	(909)	-	-	1,704	126,450	520
Elimination of inter-segment transactions or balances	(59,896)	7	-	(1,643)	(1,643)	(133,530)	(4)
Consolidated total	1,838,259	(1,323)	-	-	2,136	472,229	1,016

Geographical segments

The Group operates predominantly in Malaysia and accordingly information by geographical locations of the Group is not presented.

Major customers

There are no major customers with revenue equal or more than 10% of The Group's total revenue.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

26. OPERATING LEASES

Leases as lessee

Operating lease rentals are payable as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Less than one year	2,084	2,137	-	18
Between one and three years	1,945	4,109	-	-
	4,029	6,246	-	18

The Group leases its office and warehouse under operating leases. The leases run for an initial period of 1 to 3 years with an option to renew the leases at the end of the lease period. The leases do not include contingent rental.

27. CAPITAL COMMITMENTS

	Group	
	2018 RM'000	2017 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	372	282

28. RELATED PARTIES

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to The Group if The Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where The Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Transactions with key management personnel

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of The Group either directly or indirectly and entity that provides key management personnel services to The Group. The key management personnel include all the Directors of The Group, and certain members of senior management of The Group.

The Group has related party relationship with its subsidiaries, significant investors, Directors and key management personnel.

There are no other transactions with key management personnel other than key management personnel compensation as disclosed in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

28. RELATED PARTIES *cont'd*

Other related party transactions

	Transaction value			
	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Affiliated companies				
Purchases	(3,639)	-	-	-
Subsidiaries				
Dividend income	-	-	9,100	9,300
Interest income	-	-	1,119	1,192
Rental income	-	-	667	594
Support services income	-	-	1,235	1,225
Purchase of equipment	-	-	(212)	(170)
Support service expense	-	-	(150)	(192)
Joint venture				
Dividend income	-	-	100	-
Rental expense	(1,974)	(1,922)	-	-
Professional fee	10	6	-	-
Transactions with a company in which a Director has common directorship				
Sales	94	-	-	-

The net balances outstanding arising from the above transactions have been disclosed in Note 9 and Note 14.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on negotiated terms.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS

29.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

- (a) Fair value through profit or loss ("FVTPL")
 - Mandatorily required by MFRS 9; and
- (b) Amortised cost ("AC")
- (c) Fair value through other comprehensive income ("FVOCI")
 - Equity instrument designated upon initial recognition ("EIDUIR")

	Carrying amount RM'000	AC RM'000	Mandatorily at FVTPL RM'000	FVOCI - EIDUIR RM'000
2018				
Financial assets				
Group				
Receivables and deposits	263,791	263,791	-	-
Cash and cash equivalents	54,541	54,541	-	-
Club membership	62	-	-	62
	318,394	318,332	-	62
Company				
Receivables and deposits	25,685	25,685	-	-
Cash and cash equivalents	3,138	3,138	-	-
	28,823	28,823	-	-
Financial liabilities				
Group				
Payables and accruals	(186,367)	(186,367)	-	-
Derivative financial liabilities	(839)	-	(839)	-
	(187,206)	(186,367)	(839)	-
Company				
Payables and accruals	(846)	(846)	-	-

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.1 Categories of financial instruments *cont'd*

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

- (a) Loans and receivables (“L&R”);
- (b) Fair value through profit or loss (“FVTPL”);
- (c) Available-for-sale financial assets (“AFS”); and
- (d) Financial liabilities measured at amortised cost (“FL”).

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL RM'000	AFS RM'000
2017				
Financial assets				
Group				
Receivables and deposits	281,163	281,163	-	-
Cash and cash equivalents	50,526	50,526	-	-
Club membership	62	-	-	62
	331,751	331,689	-	62
Company				
Receivables and deposits	27,965	27,965	-	-
Cash and cash equivalents	659	659	-	-
	28,624	28,624	-	-
Financial liabilities				
Group				
Payables and accruals	(193,632)	(193,632)	-	-
Derivative financial liabilities	(2,098)	-	(2,098)	-
	(195,730)	(193,632)	(2,098)	-
Company				
Payables and accruals	(775)	(775)	-	-

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.2 Net gains and losses arising from financial instruments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net gains/(losses) on:				
Financial assets at amortised cost	1,281	-	1,325	-
Loans and receivables	-	2,377	-	1,646
Financial liabilities at amortised cost	(1,465)	(5,668)	-	(1)
Fair value through profit and loss				
- Mandatorily required under MFRS 9	1,259	-	-	-
- Held for trading	-	(4,437)	-	-
	1,075	(7,728)	1,325	1,645

29.3 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

29.4 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 principally from its receivables from customers. The Company's exposure to credit risk arises principally from loans to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries. There are no significant changes as compared to prior periods.

(i) Trade receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally financial guarantees given by banks, shareholders or directors of customers are obtained, and credit evaluations are performed on customers requiring credit over a certain amount.

At each reporting date, The Group or the Company assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when The Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

There are no significant changes as compared to previous year.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.4 Credit risk *cont'd*

(i) Trade receivables *cont'd*

Exposure to credit risk, credit quality and collateral

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with The Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 90 days, which are deemed to have higher credit risk, are monitored individually.

At the end of the reporting period, there were no significant concentrations of credit risk except for 5 individual debtors which forms 29.3% (2017: 22.3%) of the total trade receivables of The Group.

Recognition and measurement of impairment loss

In managing credit risk of trade receivables, The Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances.

The Group uses an allowance matrix to measure ECLs of trade receivables for all segments. Consistent with the debt recovery process, invoices which are past due more than 90 days will be considered as credit impaired.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to more than 90 days past due.

Loss rates are based on actual credit loss experience over the past three years. The Group also considers differences between (a) economic conditions during the period over which the historic data has been collected, (b) current conditions and (c) The Group's view of economic conditions over the expected lives of the receivables. Nevertheless, The Group believes that these factors are immaterial for the purpose of impairment calculation for the year.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	2018		
	Gross carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
Current (not past due)	148,487	-	148,487
1 – 30 days past due	70,215	-	70,215
31 – 60 days past due	24,481	-	24,481
61 – 90 days past due	5,805	-	5,805
	248,988	-	248,988
Credit impaired			
More than 90 days past due	2,793	(625)	2,168
Individually impaired	57	(57)	-
	251,838	(682)	251,156

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.4 Credit risk *cont'd*

(i) Trade receivables *cont'd*

Recognition and measurement of impairment loss cont'd

The movements in the allowance for impairment losses of trade receivables during the year are shown below.

	Lifetime ECL RM'000	2018 Credit Impaired RM'000	Total RM'000
Balance at 1 January as per MFRS 139	213	385	598
Adjustment on initial application of MFRS 9	-	-	-
Balance at 1 January as per MFRS 9	213	385	598
Amounts written off	-	(323)	(323)
Net measurement of loss allowance	411	(4)	407
Balance at 31 December	624	58	682

As at 31 December 2018, RM57,000 (2017: RM77,000) of trade receivables were written off but they are still subject to enforcement activity.

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The ageing of trade receivables as at 31 December 2017 was as follows:

	Gross RM'000	Individual impairment RM'000	Collective impairment RM'000	Net RM'000
Group				
2017				
Not past due	162,890	-	-	162,890
Past due 1 – 30 days	71,553	-	-	71,553
Past due 31 – 60 days	24,473	-	-	24,473
Past due 61 – 90 days	3,226	-	-	3,226
Past due 91 – 180 days	5,622	(14)	(192)	5,416
Past due more than 180 days	394	(371)	(21)	2
	268,158	(385)	(213)	267,560

Included in other payables and accruals is an amount of RM5,154,000 (2017: RM6,473,000) collected as security deposits to hedge against credit risk from customers with purchases in excess of allowable credit limits.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.4 Credit risk *cont'd*

(i) Trade receivables *cont'd*

Recognition and measurement of impairment loss cont'd

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement cont'd

The movements in the allowance for impairment losses of trade receivables during the financial year were:

	Group 2017 RM'000
At 1 January	915
Impairment loss reversed	(273)
Bad debts recovered	(11)
Impairment loss written off	(33)
At 31 December	<u>598</u>

The allowance account in respect of trade receivables is used to record impairment losses. Unless The Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

(ii) Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risks. In addition, some of the bank balances are insured by government agencies. Consequently, The Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

(iii) Other receivables

Credit risks on other receivables are mainly arising from deposits paid for office buildings and fixtures rented. These deposits will be received at the end of each lease terms. The Group manages the credit risk together with the leasing arrangement.

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

As at the end of the reporting period, the Company did not recognise any allowance for impairment losses.

(iv) Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than The Group. Transactions involving derivative financial instruments are with approved financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.4 Credit risk *cont'd*

(v) Financial guarantees

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries. The Company monitors on an ongoing basis the results of the subsidiaries and repayments made by the subsidiaries.

Exposure to credit risk, credit quality and collateral

No exposure to credit risk as there is no outstanding banking facility from the subsidiaries as at end of the reporting period.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

Recognition and measurement of impairment loss

The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. The Company considers a financial guarantee to be credit impaired when:

- The subsidiary is unlikely to repay its credit obligation to the bank in full; or
- The subsidiary is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default of the guaranteed loans individually using internal information available.

As at the end of the reporting period, there was no indication that any subsidiary would default on repayment.

(vi) Inter-company loans

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans to subsidiaries. The Company monitors the results of the subsidiaries regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Loans are only provided to subsidiaries which are wholly owned by the Company.

Recognition and measurement of impairment loss

Generally, the Company considers loans to subsidiaries have low credit risk. The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. As the Company is able to determine the timing of payments of the subsidiaries' loans when they are payable, the Company considers the loans to be in default when the subsidiaries are not able to pay when demanded. The Company considers a subsidiary's loan to be credit impaired when:

- The subsidiary is unlikely to repay its loan to the Company in full;
- The subsidiary's loan is overdue for more than 365 days; or

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.4 Credit risk *cont'd*

(vi) Inter-company loans *cont'd*

Recognition and measurement of impairment loss cont'd

- The subsidiary is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default for these loans individually using internal information available.

As at the end of the reporting period, there was no indication that the loans to the subsidiaries are not recoverable. The Company does not specifically monitor the ageing of loans to the subsidiaries. Nevertheless, these loans have been overdue for less than a year.

29.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables.

The Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance The Group's and the Company's operations and to mitigate the effects of fluctuations in cash flows.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Maturity analysis

The table below summarises the maturity profile of The Group's and the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
2018				
Group				
<i>Non-derivative financial liabilities:</i>				
Payables and accruals	186,367	-	186,367	186,367
<i>Derivative financial liabilities:</i>				
Forward exchange contracts (gross settled)				
Outflow	839	-	80,485	80,485
Inflow	-	-	(79,646)	(79,646)
	187,206	-	187,206	187,206
Company				
<i>Non-derivative financial liabilities:</i>				
Payables and accruals	846	-	846	846

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.5 Liquidity risk *cont'd*

Maturity analysis *cont'd*

	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000
2017				
Group				
<i>Non-derivative financial liabilities:</i>				
Payables and accruals	190,728	-	190,728	190,728
<i>Derivative financial liabilities:</i>				
Forward exchange contracts (gross settled)				
Outflow	2,098	-	90,578	90,578
Inflow	-	-	(88,480)	(88,480)
	192,826	-	192,826	192,826
Company				
<i>Non-derivative financial liabilities:</i>				
Payables and accruals	775	-	775	775

29.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect The Group's financial position or cash flows.

29.6.1 Foreign currency risk

Risk management objectives, policies and processes for managing the risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the respective functional currencies of Group entities. Approximately 29.8% (2017: 27.2%) of The Group's purchases are priced in US Dollar ("USD"). The Group hedges most of these exposures by purchasing forward currency contracts. All the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward exchange contracts are rolled over at maturity.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.6 Market risk *cont'd*

29.6.1 Foreign currency risk *cont'd*

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of The Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in USD	
	2018	2017
	RM'000	RM'000
Cash and cash equivalents	97	1,673
Trade payables	(68,473)	(72,845)
Forward exchange contracts	(839)	(2,098)
Net exposure	(69,215)	(73,270)

Currency risk sensitivity analysis

A 10% (2017: 10%) strengthening of Ringgit Malaysia ("RM") against the following currency at the end of the reporting period would have increased post-tax profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that The Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

Group	Profit or loss	
	2018	2017
	RM'000	RM'000
USD	(5,260)	(5,569)

A 10% (2017: 10%) weakening of Ringgit Malaysia ("RM") against the above currency at the end of the reporting period would have had equal but opposite effect on the above currency to the amount shown above, on the basis that all other variables remained constant.

29.6.2 Interest rate risk

Exposure to interest rate risk

The interest rate profile of The Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Fixed rate instruments				
Financial assets	-	28,273	24,600	27,514
Floating rate instruments				
Financial assets	588	572	-	-

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.6 Market risk *cont'd*

29.6.2 Interest rate risk *cont'd*

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and The Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not materially affect profit or loss.

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would not have a material impact on equity and post-tax profit or loss.

The following table shows information about exposure to interest rate risk.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets, the following table indicates their effective interest rates at the end of the reporting period and the periods in which they mature, or if earlier, reprice.

Company	Effective interest rate per annum %	Total RM'000	Within 1 year RM'000
2018			
<i>Financial assets</i>			
Amount due from subsidiaries	5.5	24,600	24,600
2017			
<i>Financial assets</i>			
Amount due from subsidiaries	5.5	27,300	27,300

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.7 Fair value information

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

The tables below analyse financial instruments at fair value.

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2018										
Financial assets										
Club membership	-	-	-	-	-	-	62	62	62	62
Financial liabilities										
Forward exchange contracts	-	839	-	839	-	-	-	-	839	839
2017										
Financial assets										
Club membership	-	-	-	-	-	-	62	62	62	62
Financial liabilities										
Forward exchange contracts	-	2,098	-	2,098	-	-	-	-	2,098	2,098

Fair value of financial instruments not carried at fair value is not applicable to The Group and the Company as The Group and the Company do not have any financial instruments not carried at fair value as at the end of the reporting period.

29.7.1 Fair value hierarchy

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

NOTES TO THE FINANCIAL STATEMENTS

cont'd

29. FINANCIAL INSTRUMENTS *cont'd*

29.7 Fair value information *cont'd*

29.7.1 Fair value hierarchy *cont'd*

Transfer between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2017: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

Club membership

The club membership is stated at cost. There was no evidence of impairment of the carrying amount during the financial year, hence fair value approximates the carrying amount.

30. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard The Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

During 2018, The Group's strategy, which was unchanged from 2017, was to maintain the debt-to-equity ratio at the lower end range. The debt-to-equity ratios were as follows:

	Note	Group	
		2018 RM'000	2017 RM'000
Total borrowings		-	-
Less: Cash and cash equivalents	10	(54,541)	(50,526)
Net cash		54,541	50,526
Total equity		288,096	272,492
Debt-to-equity ratio		N/A	N/A

There was no change in The Group's approach to capital management during the financial year.

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

During the year, the Group and the Company adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. The Group and the Company generally applied the requirements of these accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the Group and the Company have elected not to restate the comparatives.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES *cont'd*

31.1 Impacts on financial statements

The following tables summarise the impacts arising from the adoption of MFRS 15 and MFRS 9 on the Group's and the Company's financial statements.

a. Statement of financial position

Group	31 December 2017		
	As previously reported	MFRS 15 adjustments	As restated
	RM'000	RM'000	RM'000
Deferred tax assets	808	-	808
Inventories	122,980	-	122,980
Receivables and deposits	281,163	-	281,163
Others	67,278	-	67,278
Total assets	472,229	-	472,229
Contract liabilities	-	2,904	2,904
Payables and accruals	196,536	(2,904)	193,632
Others	3,201	-	3,201
Total liabilities	199,737	-	199,737
Share capital	90,000	-	90,000
Reserves	182,492	-	182,492
Total equity	272,492	-	272,492
Total equity and liabilities	472,229	-	472,229

NOTES TO THE FINANCIAL STATEMENTS

cont'd

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES *cont'd*

31.1 Impacts on financial statements *cont'd*

b. Statement of profit or loss and other comprehensive income

Group

For the year ended 31 December 2017	As previously reported RM'000	MFRS 15 adjustments RM'000	As restated RM'000
Continuing operations			
Revenue	1,855,030	(16,771)	1,838,259
Cost of sales	(1,767,560)	16,771	(1,750,789)
Gross profit	87,470	-	87,470
Distribution expenses	(34,276)	-	(34,276)
Administrative expenses	(21,705)	-	(21,705)
Others	1,354	-	1,354
Results from operating activities	32,843	-	32,843
Net finance costs	2,136	-	2,136
Share of profit of equity accounted joint venture, net of tax	664	-	664
Profit before tax	35,643	-	35,643
Tax expense	(9,375)	-	(9,375)
Profit for the year/Total comprehensive income for the year attributable to owners of the Company	26,268	-	26,268
		As previously reported	As restated
Basic earnings per ordinary share (sen):			
Basic (sen)		14.6	14.6

NOTES TO THE FINANCIAL STATEMENTS

cont'd

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES *cont'd*

31.1 Impacts on financial statements *cont'd*

c. Statement of cash flows

Group

For the year ended 31 December 2017	As previously reported RM'000	MFRS 15 adjustments RM'000	As restated RM'000
Profit before tax	35,643	-	35,643
Changes in receivables, deposit and prepayments	(13,857)	-	(13,857)
Changes in contract liabilities	-	(2,904)	(2,904)
Changes in payables and accruals	(39,076)	(2,904)	(41,980)
Others	(21,118)	-	(21,118)
Net cash from operating activities	(38,408)	-	(38,408)

31.2 Accounting for financial instruments

a. Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- i) The Group and the Company have not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- ii) The following assessments have been made based on the facts and circumstances that existed at the date of initial application:
 - the determination of the business model within which a financial asset is held; and
 - the designation of certain investments in equity instruments not held for trading as at FVOCI.
- iii) Loss allowance for receivables (other than trade receivables) is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

cont'd

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES *cont'd*

31.2 Accounting for financial instruments *cont'd*

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the Group's and the Company's financial assets and financial liabilities as at 1 January 2018:

Category under MFRS 139 Group	← 1 January 2018 →				
	31 December 2017 RM'000	Remeasurement RM'000	Amortised cost ("AC") RM'000	Fair value through profit or loss ("FVTPL") RM'000	Fair value through other comprehensive income ("FVOCI") – Equity instrument RM'000
← Reclassification to new MFRS 9 category →					
Financial assets					
Loans and receivables					
Receivables and deposits	281,163	-	278,259	-	-
Cash and cash equivalents	50,526	-	50,526	-	-
Club membership	62	-	-	-	62
	331,751	-	331,689	-	62
Company					
Financial assets					
Loans and receivables					
Receivables and deposits	27,965	-	27,965	-	-
Cash and cash equivalents	659	-	659	-	-
	28,624	-	28,624	-	-
Financial liabilities					
Fair value through profit or loss - held for trading					
Derivative financial liabilities	(2,098)	-	-	(2,098)	-
Other liabilities measured at amortised cost					
Payables and accruals	(193,632)	-	(193,632)	-	-
Company					
Financial liabilities					
Other liabilities measured at amortised cost					
Payables and accruals	(775)	-	(775)	-	-

NOTES TO THE FINANCIAL STATEMENTS

cont'd

31. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES *cont'd*

31.2 Accounting for financial instruments *cont'd*

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9 *cont'd*

(i) Reclassification from loans and receivables to amortised cost

Receivables and deposits that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

(ii) Reclassification from AFS to FVOCI

Investment in club membership is an investment that The Group intends to hold for employee benefit purposes. The club membership is designated as financial asset at FVOCI.

31.3 Accounting for revenue

In the adoption of MFRS 15, the following practical expedients as permitted by the standard have been adopted:

- (a) for completed contracts, The Group does not restate contracts that:
- (i) begin and end within the same annual reporting period; or
 - (ii) are completed contracts at the beginning of the earliest period presented.

If this practical expedient is not applied, revenue for the current year is expected to be higher because performance obligations where revenue was recognised previously could have been recognised in the current year.

- (b) for contracts that were modified before the beginning of the earliest period presented, The Group does not retrospectively restate the contract for those contract modifications. Instead, The Group or the Company reflects the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
- (i) identifying the satisfied and unsatisfied performance obligations;
 - (ii) determining the transaction price; and
 - (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.

The application of this practical expedient is not expected to have material impact to The Group.

- (c) for comparatives, The Group does not disclose the amount of consideration allocated to the remaining performance obligations and an explanation of when The Group expects to recognise revenue.

With the adoption of MFRS 15, *Revenue from Contracts with Customers*, The Group had recognised revenue net of credit note given to customers arising from the marketing and promotional activities. The cost of sales was adjusted accordingly with no impact on profit.

Similarly, the receivables and payables were adjusted for outstanding credit note not yet issued to customers arising from the marketing and promotional activities.

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 86 to 147 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2018 and of 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:

Foo Sen Chin

Director

Petaling Jaya

Date: 29 March 2019

Soong Jan Hsung

Director

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Chan Puay Chai**, the Chief Financial Officer primarily responsible for the financial management of VSTECS Berhad, do solemnly and sincerely declare that the financial statements set out on pages 86 to 147 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Chan Puay Chai, at Kuala Lumpur in the Federal Territory on 29 March 2019.

Chan Puay Chai

Before me:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

To the Members of VSTECS Berhad (formerly known as ECS ICT Berhad)
(Company No. 351038-H) (Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VSTECS Berhad, which comprise the statements of financial position as at 31 December 2018 of The Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of The Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 86 to 147.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of The Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis 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 auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT

To the Members of VSTECS Berhad (*formerly known as ECS ICT Berhad*)
(Company No. 351038-H) (Incorporated in Malaysia)
cont'd

Key Audit Matters *cont'd*

Recoverability of trade receivables

(refer to Note 2(c)(ii)(a)- Significant accounting policies and Note 9 - Receivables and deposits of the financial statements)

The key audit matter

The Group has significant trade receivables balances which amount to 52.4% of total assets and The Group applies assumptions to assess the level of provisions required to write down the value of trade receivables to their recoverable amounts. The Group's credit risk policy is based on ageing analysis to monitor the credit quality of the receivables. Aged trade receivables more than 90 days are monitored individually and as at 31 December 2018, RM2.2 million debts were past due more than 90 days with no allowance for impairment provided for. Due to the prevalent amount involved whereby provision movements may impact earnings, this results in recoverability of trade receivables being the key judgemental area that our audit is concentrated on.

How the matter was addressed in our audit

We performed the following audit procedures, among others:

- We evaluated the Group's policy on valuation of trade receivables against the requirements of MFRS 9, *Financial Instruments*;
- We evaluated the methodology adopted by the Group in assessing and measuring the Expected Credit Loss on its trade receivables;
- We challenged the Group's assumptions and judgements in making provisions by reference to historical credit loss experience and considered the forward looking information incorporated in the impairment assessment, if any;
- We tested the accuracy of the ageing of trade receivables by testing age profile of the trade receivables balance to invoices raised;
- We tested the post year end cash received allocated against aged trade receivables at the year end; and
- We considered the adequacy of the Group's disclosure on the degree of estimation involved in arriving at the allowance for impairment loss.

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

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report are as follow:

- Corporate Profile
- Chairman's Statement
- Group Financial Highlights
- Group Corporate Structure
- Corporate Governance Overview Statement
- Sustainability Statement
- Statement on Risk Management and Internal Control
- Report of the Audit Committee
- Other Information
- Statement of Directors' Responsibility
- Directors' Report

but does not include the financial statements of The Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of The Group and of the Company does not cover the annual report and we do not and will not express any form of assurance conclusion thereon.

INDEPENDENT AUDITORS' REPORT

To the Members of VSTECS Berhad (formerly known as ECS ICT Berhad)
(Company No. 351038-H) (Incorporated in Malaysia)
cont'd

Information Other than the Financial Statements and Auditors' Report Thereon *cont'd*

In connection with our audit of the financial statements of The Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of The Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining parts of the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate actions in accordance with approved standards on auditing in Malaysia and International Standards on Auditing.

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of VSTECS Berhad (*formerly known as ECS ICT Berhad*)
(Company No. 351038-H) (Incorporated in Malaysia)
cont'd

Auditors' Responsibilities for the Audit of the Financial Statements *cont'd*

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

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

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

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

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT

LLP0010081-LCA & AF 0758
Chartered Accountants

Petaling Jaya, Selangor

Date: 29 March 2019

Lee Yee Keng

Approval Number: 02880/04/2019 J
Chartered Accountant

ANALYSIS OF SHAREHOLDINGS

As at 20 March 2019

Total number of issued shares : 180,000,000 ordinary shares

Voting rights : 1 vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shareholdings	%
1 – 99	40	1.52	1,302	0.00
100 – 1,000	293	11.17	205,497	0.12
1,001 – 10,000	1,509	57.51	7,998,601	4.44
10,001 – 100,000	687	26.18	20,247,550	11.25
100,001 – 8,999,999*	92	3.51	42,916,050	23.84
9,000,000 and above**	3	0.11	108,631,000	60.35
Total	2,624	100.00	180,000,000	100.00

* Less than 5% of issued shares

** 5% and above of issued shares

THIRTY (30) LARGEST SHAREHOLDERS

Name of Shareholders	No. of Shareholdings	%
1. ECS Holdings Limited	72,000,000	40.00
2. Sengin Sdn. Bhd.	21,231,000	11.80
3. Dasar Technologies Sdn Bhd	15,400,000	8.56
4. Oasis Hope Sdn. Bhd.	8,536,000	4.74
5. CIMSEC Nominees (Asing) Sdn Bhd <i>Exempt An for CGS-CIMB Securities (Singapore) Pte. Ltd. (Retail Clients)</i>	5,321,450	2.96
6. Melco Holdings Inc.	3,000,000	1.67
7. Citigroup Nominees (Tempatan) Sdn Bhd <i>Employees Provident Fund Board (ABERISLAMIC)</i>	1,677,100	0.93
8. Federlite Holdings Sdn Bhd	1,229,900	0.68
9. Maybank Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Gan Tee Jin</i>	900,000	0.50
10. Public Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Tee Kian Hong (E-TSA)</i>	880,000	0.49
11. Chong Lian	800,000	0.44
12. CIMB Group Nominees (Asing) Sdn. Bhd. <i>Exempt An for DBS Bank Ltd (SFS)</i>	687,700	0.38
13. Yoong Qian Hui	600,000	0.33
14. Chan Geok Eng	585,000	0.33
15. Pui Cheng Tiong	551,400	0.31
16. Lim Too Hock	530,000	0.29
17. Tan Tiang Choon	520,000	0.29
18. Migan Sdn Bhd	510,750	0.28

ANALYSIS OF SHAREHOLDINGS

As at 20 March 2019
cont'd

THIRTY (30) LARGEST SHAREHOLDERS *cont'd*

Name of Shareholders		No. of Shareholdings	%
19.	Tan Liong Huat @ Tan Swee Huat	484,000	0.27
20.	CIMSEC Nominees (Tempatan) Sdn Bhd <i>CIMB for Sengin Sdn Bhd (PB)</i>	459,000	0.26
21.	Chong Chiew Tshung	435,000	0.24
22.	Public Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Chong Khong Shoong (E-IMO/JSI)</i>	430,000	0.24
23.	Maybank Nominees (Tempatan) Sdn Bhd <i>Jincan Sdn Bhd</i>	400,500	0.22
24.	CIMB Group Nominees (Asing) Sdn. Bhd. <i>Exempt An for DBS Bank Ltd (SFS-PB)</i>	375,000	0.21
25.	Public Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Kejutaan Holdings Sdn Bhd (E-IMO)</i>	350,000	0.19
26.	Yap Choo Joo @ Yap Tse Loo	350,000	0.19
27.	Kong Chew Fa	347,100	0.19
28.	Foo Lek Choong	307,200	0.17
29.	RHB Nominees (Tempatan) Sdn Bhd <i>Pledged Securities Account for Lim Geok Tze (08813M)</i>	306,000	0.17
30.	CIMSEC Nominees (Tempatan) Sdn Bhd <i>CIMB for General Technology Sdn. Bhd. (PB)</i>	303,500	0.17
		139,507,600	77.50

SUBSTANTIAL SHAREHOLDERS AS AT 20 MARCH 2019

Name	Direct Interest		Indirect Interest	
	No of Shares	%	No. of Shares	%
VSTECs Holdings (Singapore) Limited <i>(formerly known as ECS Holdings Limited)</i>	76,971,450	42.76	-	-
VSTECs Holdings Limited	-	-	76,971,450 ⁽¹⁾	42.76
Sengin Sdn. Bhd.	21,690,000	12.05	-	-
Foo Sen Chin	99,000	0.06	21,997,200 ⁽²⁾	12.22
Lee Marn Fong	-	-	22,096,200 ⁽³⁾	12.28
Dasar Technologies Sdn. Bhd.	15,400,000	8.56	-	-

ANALYSIS OF SHAREHOLDINGS

As at 20 March 2019
cont'd

DIRECTORS' SHAREHOLDINGS AS AT 20 MARCH 2019

Name	Direct Interest		Indirect Interest	
	No of Shares	%	No. of Shares	%
Foo Sen Chin	99,000	0.06	21,997,200 ⁽²⁾	12.22
Soong Jan Hsung	225,000	0.13	-	-
Tay Eng Hoe	375,000	0.21	-	-
Wong Heng Chong	225,000	0.13	-	-
Ahmad Subri Bin Abdullah	-	-	-	-
Ho Chee Kit	-	-	-	-
Ong Wei Hiam	-	-	-	-
Chow Ying Chi	-	-	-	-

Notes:-

1. VSTECS Holdings (Singapore) Limited is a wholly-owned subsidiary of VSTECS Holdings Limited.
2. By virtue of his substantial shareholdings in Sengin Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016 and the shareholdings of his child.
3. By virtue of her substantial shareholdings in Sengin Sdn. Bhd. pursuant to Section 8 of the Companies Act 2016 and the shareholdings of her child.

NOTICE OF TWENTY-THIRD ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Third Annual General Meeting of VSTECS BERHAD (Formerly known as ECS ICT Berhad) ("VSTECS" or "the Company") will be held at Greens III (Sports Wing), Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 15 May 2019 at 10:30 a.m. or at any adjournment thereof for the following purposes:-

AGENDA

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and the Auditors thereon. *(refer to Note (B)7)*
2. To approve the declaration of a single-tier final dividend of 2.5 sen per share in respect of the financial year ended 31 December 2018. *(Resolution 1)*
3. To re-elect the following Directors who retire in accordance with Article 102 of the Articles of Association of the Company:-
 - (a) Mr. Soong Jan Hsung; *(Resolution 2)*
 - (b) Ms. Ho Chee Kit; and *(Resolution 3)*
 - (c) Encik Ahmad Subri Bin Abdullah *(Resolution 4)*
4. To re-appoint KPMG PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. *(Resolution 5)*

As Special Business

To consider and, if thought fit, with or without any modification, to pass the following resolutions:-

5. **ORDINARY RESOLUTION NO. 1**
- **RETENTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR** *(Resolution 6)*

 "THAT subject to the passing of Resolution 3, Ms. Ho Chee Kit who has served as an Independent Non-Executive Director of the Company for a cumulative terms of nine years, be hereby retained as an Independent Non-Executive Director of the Company."
6. **ORDINARY RESOLUTION NO. 2**
- **RETENTION OF INDEPENDENT NON-EXECUTIVE DIRECTOR** *(Resolution 7)*

 "THAT subject to the passing of Resolution 4, Encik Ahmad Subri Bin Abdullah who has served as an Independent Non-Executive Director of the Company for a cumulative terms of nine years, be hereby retained as an Independent Non- Executive Director of the Company."
7. **ORDINARY RESOLUTION NO. 3**
- **PAYMENT OF DIRECTORS' FEES** *(Resolution 8)*

 "THAT the Directors' Fees amounting to RM444,675.00 (Ringgit Malaysia: Four Hundred Forty-Four Thousand Six Hundred and Seventy-Five) only for the financial year ended 31 December 2018, be and is hereby approved for payment."
8. **ORDINARY RESOLUTION NO. 4**
- **PAYMENT OF BENEFITS PAYABLE TO THE DIRECTORS UNDER SECTION 230 OF THE COMPANES ACT 2016** *(Resolution 9)*

 "THAT the benefits payable to the Directors up to an amount of RM105,087 (Ringgit Malaysia: One Hundred Five Thousand and Eighty-Seven) only for the period from 1 July 2019 to the next Annual General Meeting of the Company pursuant to Section 230(1)(b) of the Companies Act 2016 be and is hereby approved for payment."

NOTICE OF TWENTY-THIRD ANNUAL GENERAL MEETING

cont'd

9. **ORDINARY RESOLUTION NO. 5** **(Resolution 10)**
 - **AUTHORITY TO ISSUE SHARES PURSUANT TO THE COMPANIES ACT 2016**

“THAT subject always to the Companies Act 2016 (**“the Act”**), the Articles of Association/Constitution of the Company and the approvals from Bursa Malaysia Securities Berhad (**“Bursa Securities”**) and any other relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered pursuant to the Act, to issue and allot shares in the capital of the Company from time to time at such price and upon such terms and conditions, for such purposes and to such person or persons whomsoever the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares issued pursuant to this resolution does not exceed ten percent (10%) of the total number of issued shares of the Company for the time being;

AND THAT the Directors be and are so empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Securities;

AND FURTHER THAT such authority shall commence immediately upon the passing of this resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company.”

10. **ORDINARY RESOLUTION NO. 6** **(Resolution 11)**
 - **PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES (“PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY”)**

“THAT subject to Section 127 of the Act, the Articles of Association/Constitution of the Company, Main Market Listing Requirements of Bursa Securities and all other applicable laws, rules and regulations and guidelines for the time being in force and the approvals of all relevant governmental and/or regulatory authority, approval be and is hereby given to the Company, to purchase such number of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities as the Directors may deem fit and expedient in the interest of the Company, provided that:-

- (i) the aggregate number of ordinary shares to be purchased and/or held by the Company does not exceed ten per centum (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase; and
- (ii) the maximum funds to be allocated by the Company for the purpose of purchasing its own shares shall not exceed the aggregate of the retained profits of the Company based on the latest audited financial statements and/or the latest management accounts of the Company (where applicable) available at the time of the purchase.

THAT upon completion of the purchase by the Company of its own shares, the Directors of the Company be authorised to deal with the shares purchased in their absolute discretion in the following manner:-

- (i) cancel all the shares so purchased; and/or
- (ii) retain the shares so purchased in treasury for distribution as dividend to the shareholders and/or resell on the market of Bursa Securities; and/or
- (iii) retain part thereof as treasury shares and cancel the remainder; and/or

in any other manner as prescribed by the Act, rules, regulations and orders made pursuant to the Act and the requirements of Bursa Securities and any other relevant authority for the time being in force.

NOTICE OF TWENTY-THIRD ANNUAL GENERAL MEETING

cont'd

THAT such authority conferred by this resolution shall commence upon the passing of this resolution and shall continue to be in force until:-

- (a) the conclusion of the next AGM of the Company following this AGM at which such resolution was passed, at which time it will lapse, unless by an ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which the next AGM of the Company after that date is required by law to be held; or
- (c) revoked or varied by an ordinary resolution passed by the shareholders of the Company at a general meeting;

whichever occurs first.

AND THAT the Directors of the Company be authorised to do all acts, deeds and things as they may consider expedient or necessary in the best interest of the Company to give full effect to the Proposed Renewal of Share Buy-Back Authority with full powers to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and to take all such steps, and do all such acts and things as they may deem fit and expedient in the best interest of the Company.”

11. SPECIAL RESOLUTION

- PROPOSED ADOPTION OF A NEW CONSTITUTION OF THE COMPANY (“PROPOSED ADOPTION”)

(Resolution 12)

“**THAT** approval be and is hereby given to revoke the existing Memorandum and Articles of Association of the Company in its entirety and in place thereof, a new constitution as set out in Part B of Appendix II of the Circular/Statement to Shareholders dated 16 April 2019 accompanying the Company’s Annual Report 2018 for the financial year ended 31 December 2018 be and is hereby adopted as the Constitution of the Company with immediate effect;

AND THAT the Directors of the Company be and are hereby authorised to do all such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Adoption with the full power to assent to any conditions, modification, and/or amendments as may be required by any relevant authorities to give effect to the Proposed Adoption.”

12. To transact any other business of which due notice shall have been given.

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that a single-tier final dividend of 2.5 sen per ordinary share for the financial year ended 31 December 2018 will be payable on 19 June 2019 to depositors whose names appear in the Record of Depositors at the close of business on 27 May 2019 if approved by the members at the Twenty-Third Annual General Meeting of the Company.

A Depositor shall qualify for entitlement only in respect of:-

- (a) Shares transferred into the Depositor’s Securities Account before 4:00 p.m. on 27 May 2019 in respect of ordinary transfers; and
- (b) Shares bought on Bursa Securities on a cum entitlement basis according to the Rules of Bursa Securities.

NOTICE OF TWENTY-THIRD ANNUAL GENERAL MEETING

cont'd

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689)
CHENG CHIA PING (MAICSA 1032514)
 Company Secretaries

Kuala Lumpur
 Dated: 16 April 2019

Notes:-

(A) Information for Shareholders/Proxies

1. *In respect of deposited securities, only members whose names appear in the Record of Depositors on 8 May 2019 ("General Meeting Record of Depositors") shall be eligible to attend the Meeting.*
2. *A member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies in respect of each securities account the member holds in the ordinary shares of the Company standing to the credit of the said securities account to attend and vote instead of him/her. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.*
3. *A proxy may but does not need to be a member of the Company and notwithstanding this, a member entitled to attend and vote at the Meeting is entitled to appoint any person as his/her proxy to attend and vote instead of the member at the Meeting without limitation. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak at the Meeting.*
4. *In the case of a corporate member, the instrument appointing a proxy must be either under its common seal or under the hand of its officer or attorney duly authorised.*
5. *Where a member of the Company is an exempt authorised nominee 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 exempt authorised nominee may appoint in respect of each omnibus account it holds.*
6. *The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing and must be deposited at the Company's Registered Office at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting or any adjournment thereof.*

(B) Audited Financial Statements for the financial year ended 31 December 2018

7. *This Agenda item is meant for discussion only, as the provision of Section 340(1)(a) of the Companies Act 2016 does not require a formal approval for the Audited Financial Statements from the shareholders. Therefore, this Agenda item is not put forward for voting.*

(C) Re-election of Directors

8. *In determining the eligibility of the Directors to stand for re-election at the forthcoming Twenty-Third AGM, the Nominating Committee ("NC"), guided by the Directors' Assessment Policy has considered the criteria as stated in the said Policy as well as the requirements of Paragraphs 2.20A of the Main LR of Bursa Securities and recommended Mr. Soong Jan Hsung, Ms. Ho Chee Kit ("Ms. Ho") and Encik Ahmad Subri Bin Abdullah ("En. Subri"), for re-election as Directors pursuant to Article 102 of the Articles of Association of the Company ("Retiring Directors"). The Board has conducted a separate assessment and being satisfied with the performance/contribution of the Retiring Directors, therefore they recommended the same be tabled to the shareholders for approval at the forthcoming Twenty-Third AGM of the Company under Resolutions 2, 3 and 4 respectively. The evaluation criteria adopted as well as the process of assessment by the Board have been duly elaborated in the Corporate Governance Statement of the Annual Report 2018 of the Company.*

All the retiring Directors have consented to their re-election, and abstained from deliberation and voting in relation to their individual re-election at the NC and Board Meeting, respectively.

NOTICE OF TWENTY-THIRD ANNUAL GENERAL MEETING

cont'd

(D) Re-appointment of Auditors

9. The Audit Committee ("AC") have assessed the suitability and independence of the External Auditors and recommended the re-appointment of KPMG PLT as External Auditors of the Company for the financial year ending 31 December 2019. The Board has in turn reviewed the recommendation of the AC and recommended the same be tabled to the shareholders for approval at the forthcoming Twenty-Third AGM of the Company under Resolution 5. The evaluation criteria adopted as well as the process of assessment by the AC and Board, respectively, have been duly elaborated in the Corporate Governance Statement of the Annual Report 2018 of the Company.

Explanatory Note to Special Business:

(E) Retention as Independent Directors

10. Ms. Ho and En. Subri were the Independent Non-Executive Directors of the Company since the Company listed on 15 April 2010 and have served the Board for a cumulative term of nine (9) years. The Board through the NC of the Company, after having assessed the collective skills, experience and independence of Ms. Ho and En. Subri, regarded them to be independent based amongst others, the following justifications and recommends that Ms. Ho and En. Subri be retained as an Independent Non-Executive Director of the Company, subject to the approval from the shareholders of the Company under Resolutions 6 and 7 respectively:-
- i. Ms. Ho and En. Subri have met the independent guidelines set out in Chapter 1 of Main LR of Bursa Securities.
 - ii. Ms. Ho and En. Subri have been with the Company for nine (9) years therefore understands the business operations of the Company and appreciates the emerging trends and challenges faced by The Group.
 - iii. Drawing on their respective diverse expertise/experience, Ms. Ho and En. Subri actively participate and contribute to the discussions and deliberations of the Board and Board Committees meetings. They have diligently attended all of the meetings held for the Board and Board Committees for the financial year ended 31 December 2018.
 - iv. Ms. Ho and En. Subri have exercised due care and diligence during their tenure as an Independent Non-Executive Director of the Company.

(F) Payment of Directors' Fees

11. The Proposed Directors' Fees for the financial year ended 31 December 2018 was RM444,675.00 (2017: RM401,795.40/-).

The Resolution 8, if approved, will authorise the payment of Directors' Fees pursuant to Article 110 of the Articles of Association of the Company.

(G) Payment of Benefits Payable

12. Under proposed Resolution 9, the benefits payable to the Directors has been reviewed by the Remuneration Committee and the Board of Directors of the Company, which recognises that the benefits payable is in the best interest of the Company. The benefits concern comprised the meeting allowances, insurance premium and other benefits payable in favour of the Directors.

(H) Authority to Issue Shares pursuant to the Companies Act 2016

13. The Company wishes to renew the mandate on the authority to issue shares pursuant to the Companies Act 2016 at the Twenty-Third AGM of the Company (hereinafter referred to as the "General Mandate"). This authority will, unless revoked or varied by the Company at a general meeting, shall continue to be in full force until the conclusion of the next AGM of the Company.

The Company had been granted a general mandate by its shareholders at the Twenty-Second AGM of the Company held on 16 May 2018 (hereinafter referred to as the "Previous Mandate").

The Previous Mandate granted by the shareholders had not been utilised and hence no proceed was raised therefrom.

The purpose to seek the General Mandate is to enable the Directors of the Company to issue and allot shares at any time to such persons in their absolute discretion without convening a general meeting as it would be both time and cost-consuming to organise a general meeting. This authority unless revoked or varied by the Company in general meeting, will expire at the next AGM. The proceeds raised from the General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/ or acquisitions.

NOTICE OF TWENTY-THIRD ANNUAL GENERAL MEETING

cont'd

(I) Proposed Renewal of Share Buy-Back Authority

The proposed Resolution 11, if passed, will renew the authority given to the Company to purchase its own shares of up to ten per centum (10%) of the total number of issued shares of the Company at any time within the time period stipulated in the Main LR of Bursa Securities (hereinafter referred to as the "Share Buy-Back"). This authority will, unless revoked or varied by the Company at a general meeting, shall continue to be in full force until the conclusion of the next AGM of the Company.

At the Company's Extraordinary General Meeting held on 8 November 2018, the Company had been granted an authority by its shareholders for Share Buy-Back. This authority for Share Buy-Back would expire upon the conclusion of the forthcoming Twenty-Third AGM of the Company and the Company intends to seek for a renewal of authority for Share Buy-Back.

Further details are set out in the Part A of the Circular/Statement to Shareholders dated 16 April 2019 circulated together with this Annual Report.

(J) Proposed Adoption of a New Constitution of the Company

The proposed Special Resolution, if passed, will bring the Company's Constitution in line with the Companies Act 2016 and the amended Main LR of Bursa Securities as well as to enhance administrative efficiency.

The proposed new Constitution is set out in Part B of Appendix II of the Circular/Statement to Shareholders dated 16 April 2019 circulated together with this Annual Report.

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PROXY FORM

No. of Shares Held	CDS Account No.

I/We _____
(name of shareholder as per NRIC, in capital letters)

NRIC No./ID No./Company No. _____ (New) _____ (Old)
 of _____
(full address)

being a Member/Members of VSTECS Berhad, hereby appoint _____
(name of proxy as per NRIC, in capital letters)

NRIC No. _____ (New) _____ (Old) of _____

(full address)

and/or failing him/her _____
(name of proxy as per NRIC, in capital letters)

NRIC No. _____ (New) _____ (Old) of _____

(full address)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote on my/our behalf at the Twenty-Third Annual General Meeting of the Company to be held at Greens III (Sports Wing), Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 15 May 2019 at 10:30 a.m. and at any adjournment thereof.

The proportion of *my/our holdings to be represented by *my/our proxy(ies) are as follows:-

First Proxy	_____	%
Second	_____	%
	_____	100%

In the case of a vote by a show of hands, my proxy _____ (one only) shall vote on *my/our behalf.

Please indicate with an "X" in the spaces provided below how you wish your votes to be casted. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

Resolutions	For	Against
Resolution 1 Declaration of Final Dividend		
Resolution 2 Re-election of Mr. Soong Jan Hsung as Director		
Resolution 3 Re-election of Ms. Ho Chee Kit as Director		
Resolution 4 Re-election of Encik Ahmad Subri Bin Abdullah as Director		
Resolution 5 Re-appointment of KPMG PLT as Auditors and to fix their remuneration		
Resolution 6 Ordinary Resolution No. 1 – Retention of Ms. Ho Chee Kit as Independent Non-Executive Director		
Resolution 7 Ordinary Resolution No. 2 – Retention of Encik Ahmad Subri Bin Abdullah as Independent Non-Executive Director		
Resolution 8 Ordinary Resolution No. 3 – Payment of Directors' Fees		
Resolution 9 Ordinary Resolution No. 4 – Payment of Benefits Payable to the Directors		
Resolution 10 Ordinary Resolution No. 5 – Authority to Issue Shares		
Resolution 11 Ordinary Resolution No. 6 – Proposed Renewal of Share Buy-Back Authority		
Resolution 12 Special Resolution – Proposed Adoption of a new Constitution		

Dated this _____ day _____ 2019.

Shareholder's Contact Number

 Signature of Member/Common Seal

(A) Information for Shareholders/Proxies

1. In respect of deposited securities, only members whose names appear in the Record of Depositors on 8 May 2019 ("General Meeting Record of Depositors") shall be eligible to attend the Meeting.
2. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two (2) proxies in respect of each securities account the member holds in the ordinary shares of the Company standing to the credit of the said securities account to attend and vote instead of him/her. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy.
3. A proxy may but does not need to be a member of the Company and notwithstanding this, a member entitled to attend and vote at the Meeting is entitled to appoint any person as his/her proxy to attend and vote instead of the member at the Meeting without limitation. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak at the Meeting.
4. In the case of a corporate member, the instrument appointing a proxy must be either under its common seal or under the hand of its officer or attorney duly authorised.
5. Where a member of the Company is an exempt authorised nominee 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 exempt authorised nominee may appoint in respect of each omnibus account it holds.
6. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing and must be deposited at the Company's Registered Office at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting or any adjournment thereof.

(B) Audited Financial Statements for the financial year ended 31 December 2018

7. This Agenda item is meant for discussion only, as the provision of Section 340(1)(a) of the Companies Act, 2016 does not require a formal approval for the Audited Financial Statements from the shareholders. Therefore, this Agenda item is not put forward for voting.

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AFFIX
STAMP

The Company Secretary

VSTECs BERHAD (351038-H)
(formerly known as ECS ICT Berhad)

Level 7, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

1st Fold Here

VSTECs BERHAD (351038-H)
(formerly known as ECS ICT Berhad)

Lot 3, Jalan Teknologi 3/5, Taman Sains Selangor,
Kota Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Tel : +603 6286 8222
E-mail : secretariat@vstecs.com.my

www.vstecs.com.my

