VSTECS BERHAD

[Registration No: 199501021835 (351038-H)]

INNOVATIVE TRANSFORMATION

ANNUAL REPORT 2019

OUR VISION

TO be the leading provider of information & communications technology products and value-added services.

WE strive for sustainable growth to achieve optimum returns to shareholders.

OUR MISSION

WE shall strive to be a leading provider within Malaysia of reputable, quality computer systems, hardware, software, services and support for our customers.

WE shall conduct business with our valued customers and suppliers with professionalism and integrity.

WE shall have an environment to develop, motivate and reward our employees by providing training and incentives for productivity.

WE shall achieve the profitability for future growth and to give an adequate return to shareholders.

WE shall be good corporate citizens with social responsibilities to our communities.

Contents

COVER RATIONALE

Our theme of “Innovative Transformation” heralds a new era as we welcome a new member to our group and work towards the unlocking of potential synergies. Digital transformation and new channel innovation will lead the way for the Group to achieve new heights.

CORPORATE PROFILE

VSTECS Berhad and its subsidiaries ("**the Group**") started in 1985 with the establishment of VSTECS KU Sdn. Bhd. Today, the Group is a leading distribution hub for Information and Communications Technology ("**ICT**") products in Malaysia via VSTECS Astar Sdn. Bhd. and VSTECS Pericomp Sdn. Bhd..

Listed on the Main Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**") on 15 April 2010, VSTECS is an associate company of VSTECS Holdings (Singapore) Limited, which is one of the leading ICT distributors in Asia Pacific, accessing to a network of more than 25,000 channel partners across China, Thailand, Malaysia, Singapore, Indonesia, the Philippines, Cambodia, Laos and Myanmar. VSTECS Holdings (Singapore) Limited is a wholly-owned subsidiary of VSTECS Holdings Limited listed on the Hong Kong Stock Exchange.

VSTECS distributes a comprehensive range of ICT products comprising Notebooks, personal computers ("**PCs**"), smartphones, smartwatches, tablets, printers, software, network and communication infrastructure, servers, and enterprise software from more than 40 leading principals.

With a nationwide channel network of more than 6,600 resellers comprising of retailers, system integrators ("**SI**") and corporate dealers, VSTECS also provides value-added product support and technical services. For more information, please visit www.vstecs.com.my.

DIGITAL
TRANSFORMATION

As we venture into new frontiers of the digital age, technological advancement is a constant catalyst for innovation and solutions.

But the fundamental driver for change still stems from the need to fulfill our basic human instinct to evolve and improve.

As government, industry and society continue to evolve, the speed of which is propelled ever faster by the power of digital transformation.

From accomplishing more tasks in lesser time to reaching new heights of efficiency and productivity, VSTECS is proud to be the facilitator and conduit for the tools that make them happen.


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CHAIRMAN'S STATEMENT

2019 IN RETROSPECT

Our Group delivered resilient results in the financial year 2019 despite an overall challenging market environment. Globally, there were exceptional sources of volatility, primarily the trade tensions between the US and China which created a bed of uncertainties weighing on businesses and consumer confidence. Malaysia's economy registered a moderate growth of 4.3% in 2019 which was the lowest since the global financial crisis in 2009. Notwithstanding this, we increased our market share and reinforced our leadership position through our strong product portfolio and broad-based channel of resellers.

FOO SEN CHIN
Non-Independent
Non-Executive Chairman

CHAIRMAN'S STATEMENT
cont'd

Our better performance in 2019 was driven by all 3 business segments: ICT Distribution, Enterprise Systems and ICT Services. We closed the year with revenue of RM1.80 billion and net profit of RM29.6 million which represented growth of 10.4% and 20.3%, respectively, compared to 2018. In our **ICT Distribution** business, we continued to position ourselves as the partner of choice to principals and resellers while adopting e-commerce strategies to broaden our reach to both the business-to-business (B2B) and business-to-consumer (B2C) segments. The **Enterprise Systems** segment which supplies to our value-added resellers for the corporate and public sectors grew significantly, buoyed by digital transformation programmes. During the year, we completed the acquisition of 40% equity interest in ISATEC Sdn. Bhd. which provided immediate momentum into the synergistic **ICT Services** segment while expanding our coverage of notable corporate clients.

The Board has approved a second interim dividend of 3.0 sen per share to be paid on 17 June 2020. Together with the interim dividend of 2.5 sen distributed last December, we will be paying a total dividend of 5.5 sen per share to shareholders in respect of the financial year under review.

PROSPECTS

We were faced with a challenging start in 2020. The Covid-19 pandemic outbreak caused supply chain disruptions and possible slowdown in 5G infrastructure deployment. Due to the pandemic outbreak in January followed by the Movement Control Order imposed by the government on 18 March 2020, Malaysia's GDP growth rate is expected to contract for 2020. Adding to this, our fluid political situation caused derailments of certain policies and project implementation which will in turn have a bearing on our business plans. We are hopeful that the situation will gradually improve post containment of Covid-19 and be supported by more liberal fiscal and monetary policies.

We seek to thrive in unorthodox circumstances by taking pre-emptive actions to reach higher targets in 2020 through proactive and innovative initiatives.

SUSTAINABILITY

Building a sustainable business is our foremost priority and after more than three decades since our inception, we are guided by the core principles which holds us in good stead for the present and future.

This commitment to sustainability requires the right governance structure to oversee policies over the long term. We have a diverse and experienced Board of Directors that provides independent oversight. Our Board constantly looks for ways to further strengthen corporate governance standards and where relevant, adopt international best practices.

Talent is our biggest asset and we provide support and opportunities to all employees to build their careers and achieve their goals. Our inclusive work environment is reflected in the diversity of our people. While it is important to build our business profitably, we do so in a responsible and sustainable manner.

APPRECIATION

On behalf of the Board of Directors, I congratulate our Management team and all employees on their achievements in 2019. We express our recognition and applaud their dedication for delivering such positive results in challenging times.

To all our stakeholders – employees, principals, resellers, bankers, business associates, and shareholders – thank you for your continued trust, commitment and confidence in the Group. I look forward to your unwavering support as we continue to work hard towards increased profitability and a sustainable future.

FOO SEN CHIN
Non-Independent Non-Executive Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

SOONG JAN HSUNG
Executive Director/
Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS
cont'd

BUSINESS OVERVIEW

VSTECS Berhad via its wholly-owned subsidiaries, is the leading distributor of ICT products to consumers and enterprises in the nation. Founded in 1985, the Group distributes a wide range of products by having distributorship agreements with more than 40 global brands in the ICT industry. Furthermore, we also provide IT services in the form of pre-sales, integration and post-sales in support of the brands we represent. The key activities of our business are the following:

- the marketing, sales and channel management of the brands we carry;
- warehouse facilities and channel logistics to cover nationwide sales; and
- related services in terms of pre-sales system solutioning and post-sales and warranty support.

Our head office and warehouse facilities are situated in Kota Damansara, Petaling Jaya with sales offices located in Pulau Pinang, Kuantan, Johor Bahru, Kuching and Kota Kinabalu. Our channel coverage of more than 6,600 resellers nationwide comprises mainly of IT retailers, System Integrators ("**SI**") resellers and corporate dealers. In line with our expanding portfolio of smart consumer-electronics and Internet-of-Things ("**IoT**") products, we are also supplying products to consumer electronics retailers, electronic lifestyle stores and specialist hobby outlets. Our presence in major local e-Commerce platforms is by way of operating the official Brand Stores to fulfil the online Business-to-Consumer ("**B2C**") coverage on behalf of the brand principals.

As part of our strategic expansion into the IT Software and Service segments within the ICT industry, we invested RM18.8 million to acquire 40% into ISATEC Sdn. Bhd. (formerly known as I.S.A. Technologies Sdn. Bhd.) ("**ISATEC**") in which the investment was successfully concluded in July 2019. We are currently executing strategies to unlock synergies within our expanded group with regards to offering new products and services to serve the greater ICT market.

FINANCIAL REVIEW

For the year under review, the Group recorded a 10.4% increase in revenue to RM1,802.3 million compared to the RM1,632.3 million registered in FY2018 due to increased contribution from all three segments being ICT Distribution, Enterprise Systems and ICT Services.

Our efforts in channelling focus on the Enterprise Systems segments since 2016 has resulted in it contributing RM17.3 million to profit before tax ("**PBT**"), which is 44.1% of the Group's PBT for FY2019. With the larger contribution from Enterprise Systems which yields higher margins, PBT increased by 19.9% to RM39.3 million. The effective tax rate for the year was 24.7% and we closed the financial year with profit after tax of RM29.6 million.

Owing to our balanced coverage of both the consumer and corporate market segments, we were able to grow both our top and bottom lines despite the challenging market conditions in 2019. This is reflected in our earning per share ("**EPS**") of 16.5 sen for FY2019 as compared to 13.7 sen in the preceding financial year.

Our balance sheet remains healthy with zero gearing and a net cash position of RM71.0 million as at FYE2019 compared to RM54.5 million in the preceding financial year. Net assets stood at RM307.8 million which translates to net tangible asset per share of RM1.71. As a measure of liquidity, our quick ratio in FY2019 was healthy at 1.5 times as compared to 1.7 times in FY2018. The slightly lower quick ratio was attributable to the 40% acquisition of ISATEC.

Our financial performance in the last 5 years is shown in the following 5 charts:

1. Revenue and Gross Profit Margin;
2. PATAMI and PATAMI Margin;
3. EPS and Net Asset per share;
4. Total Assets and Shareholders' Equity; and
5. Profitability

MANAGEMENT DISCUSSION AND ANALYSIS
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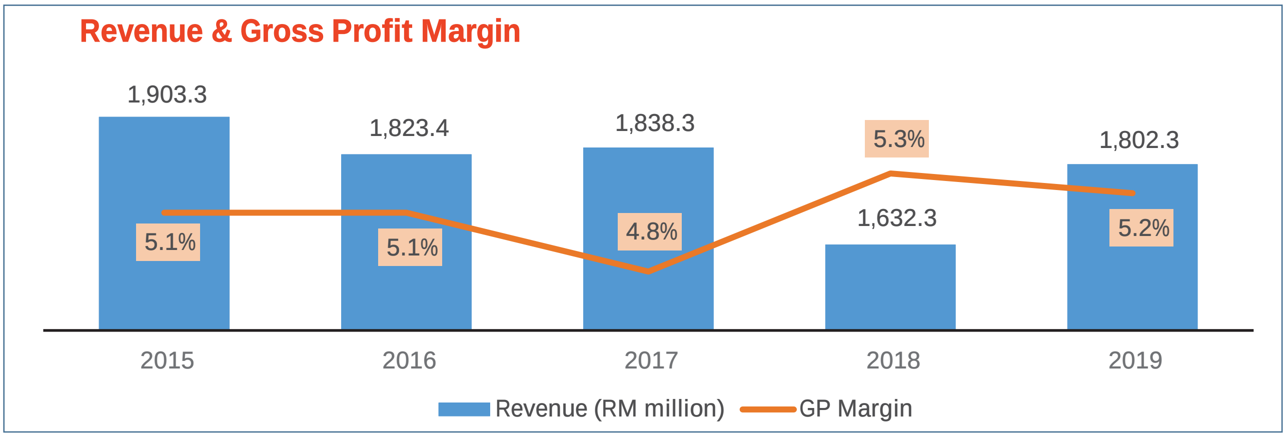

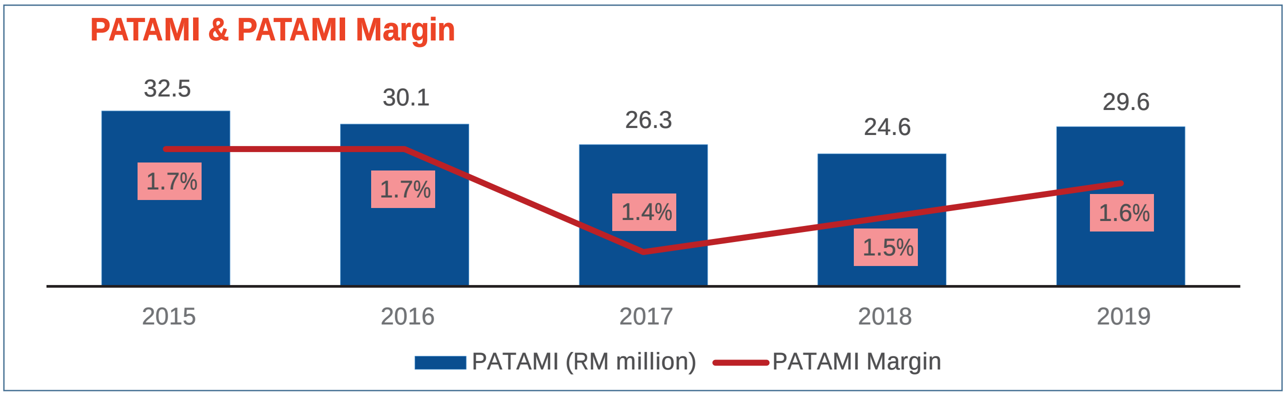

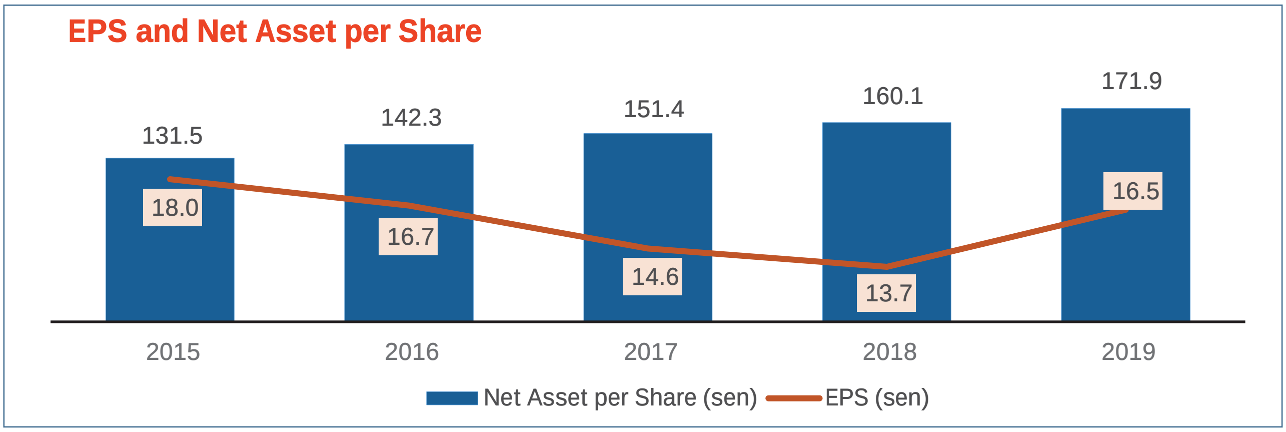

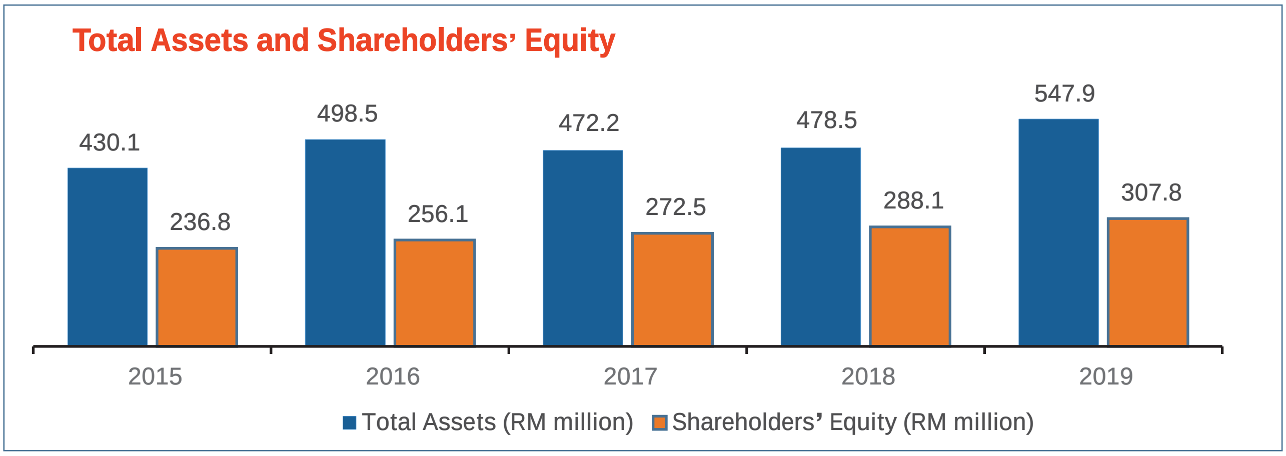

MANAGEMENT DISCUSSION AND ANALYSIS
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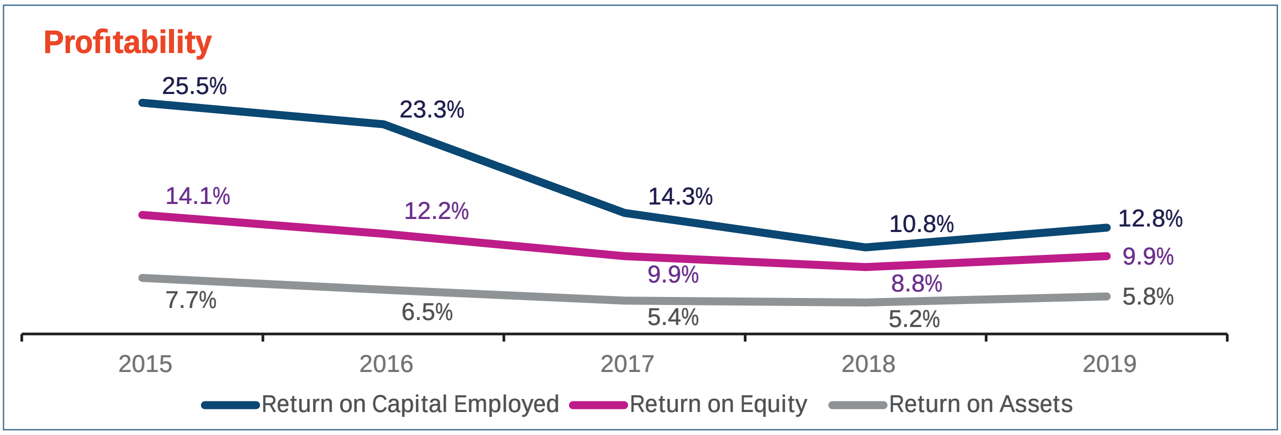

OPERATIONS REVIEW BY BUSINESS SEGMENT

The Group's business segments are as follows:

i.	ICT Distribution	:	Distribution of volume ICT products to resellers, comprising mainly of retailers;
ii.	Enterprise Systems	:	Distribution of value ICT products to resellers, comprising mainly of SI and corporate dealers; and
iii.	ICT Services	:	Provisioning of ICT services

ICT Distribution

2019 was a challenging year for IT consumer spending due to weaker overall consumer sentiments. Nevertheless, we managed to increase our revenue in this segment to RM1,207.1 million in FY2019 compared to RM1,137.4 million in the preceding year, albeit at a lower GP contribution of RM43.9 million in FY 2019 versus RM45.8 million in 2018.

The ICT Distribution segment remains an important space for us and in 2019, we increased our market share of existing brands in our top product categories being PCs, Notebooks and printer consumables while also representing new brands for eSports and mobility products. Our top line revenue was further improved by the popularity of new smartphone models launched in the third quarter of 2019.

Sales of consumer and business PCs and Notebooks were also fuelled by the upgrade of the Windows™ Operating System ("**OS**"). Microsoft announced the Windows 7 end-of-life support by 14th January 2020 and hence effected an urgent upgrade exercise to Windows 10, which in turn drove the demand for PC and Notebook hardware replacement.

Despite the weaker consumer sentiments in 2019 and even more so going into 2020, we shall continue our efforts to grow the ICT Distribution segment with additional complementary products and strengthen our channels in this segment.

Enterprise Systems and ICT Services

Our increase in revenue and gross profit in the Enterprise Segment was reflective of the renewed ICT spending in the public and private sectors especially in the second half of 2019. 2019 saw increased momentum of governmental spending in IT infrastructure after the stabilisation of political and public administration changeovers in 2018. Likewise, enterprise upgrades on OS and legacy hardware systems contributed to an overall positive growth for the industry in general.

In 2019, we further increased product portfolio by representing brands that empower digital transformation, e-document handling, cyber security and intelligent automation platforms. We continued to grow brands that empower the cloud and big data infrastructure for Industry 4.0 and the nation's digital economy.

The growth of the Enterprise Systems segment has had a positive spillover effect in the ICT Services segment where system design, implementation and support are the bulk of our ICT service revenue. The foundations for such growth was laid down in 2016 in which the Group increased its efforts into this segment by way of careful brand representation and also investment into human capital where pre- and post-sales support play an important role in the design, implementation and service of Enterprise Systems.

The higher revenue and gross profit gain in ICT Services were due to our ICT service team having more vendor certifications to better handle ICT project implementations and service support contracts. We worked closely with enterprise vendors to be appointed as their official implementers in support of our SI partners and be the SI's preferred technical outsource partner.

MANAGEMENT DISCUSSION AND ANALYSIS
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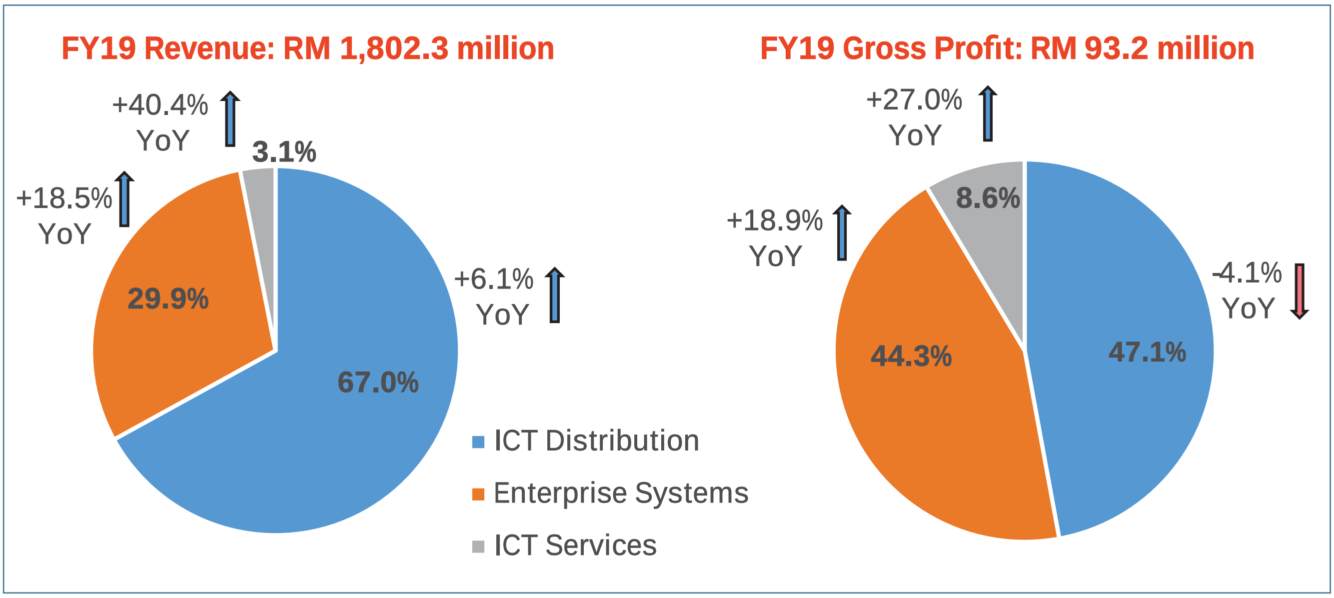


AWARDS AND APPOINTMENTS

VSTECS Astar Sdn. Bhd.

No.	Categories by Brand	Awards/Accolades/Appointment
1	Asus	Open Platform Distributor FY2018
2		Top Notebook Contribution Distributor 2019 - Silver
3	Dell EMC	Marketing Excellence FY2019
4	HPE	Best Distributor of the Year Award FY2019
5		Best Distributor Mission Critical Solutions (MCS) Award FY2019
6		Best Distributor Partner Coverage Award FY2019
7		Best Distributor Overall Pointnext Award FY2019
8		Best Distributor Pointnext Install Base, Conversion and New Solution Award FY2019
9		Best Distributor Server Award FY2019
10		Best Distributor Storage Award FY2019
11		Outstanding Contribution Award FY2019
12	HPI	Top Consumer Notebook Distributor in FY2018
13		Top Consumer Desktop Distributor in FY2018
14		Top Workstation Distributor in FY2018
15	Lenovo	2019 Lenovo Distribution Partner
16		FY2018 and FY2019 Best Consumer Desktop Distributor
17		FY2018 and FY2019 Best Growth Commercial Distributor
18	Microsoft	Certificate of Excellence FY2019
19	Nutanix	FY2019 Malaysia Distributor of the Year
20	Samsung	Certified Distributor For Samsung Smart Signage for Financial Year 2020

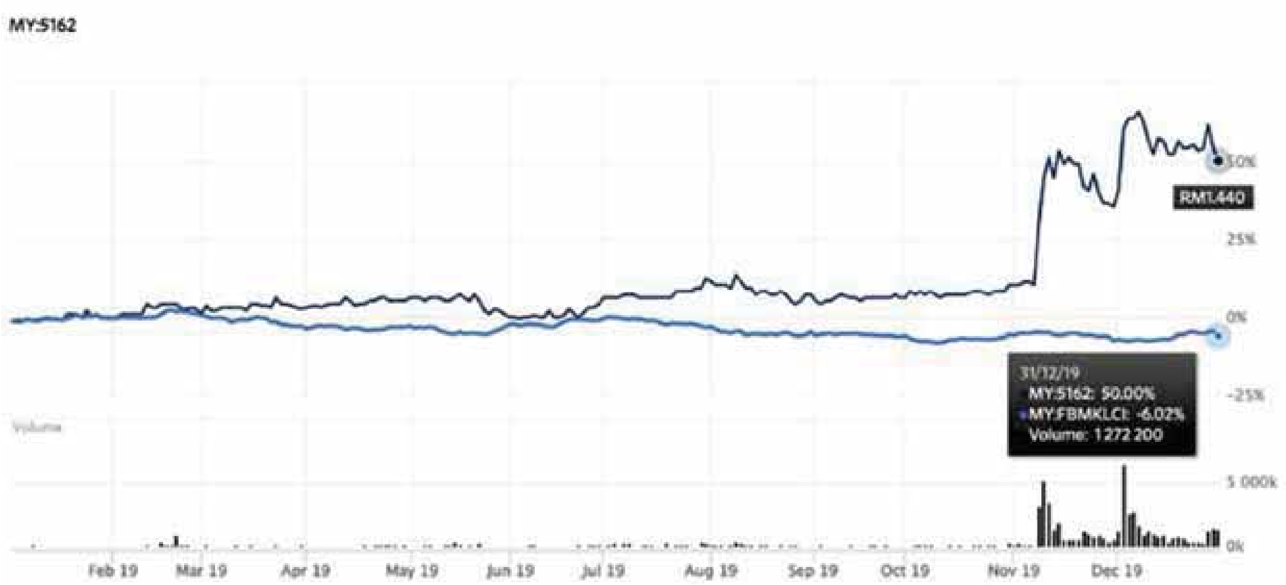
MANAGEMENT DISCUSSION AND ANALYSIS
cont'd

VSTECS Pericomp Sdn. Bhd.

No.	Categories by Brand	Awards/Accolades
1	Huawei	Enterprise Distributor of the year for 2019
2		Best Supportive Distributor of the Year 2019
3		Channel Partner Program Distributor FY2019
4		Huawei Enterprise Channel Partner Program Distributor 2019

SHARE PRICE PERFORMANCE

VSTECS's share price closed at RM1.44 on 31 December 2019, with a total market capitalisation of RM257.9 million, a 49.2% gain from RM172.8 million as at 31 December 2018. Year low and year high share prices marked RM0.945 and RM1.670 respectively. Average daily trading volume was 255,130 units during the year.



Source: Wall Street Journal

DIVIDEND

The Group continues to reward our shareholders through dividend payments and paid out a single tier interim dividend of 2.5 sen per ordinary share for FY2019 on 18 December 2019.

The Board has approved a second interim dividend of 3.0 sen per ordinary share for FY2019 to be paid on 17 June 2020 in respect of deposited securities as at 28 May 2020.

The Group will continue to practise distributing a minimum 30% of net profit as dividend to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS
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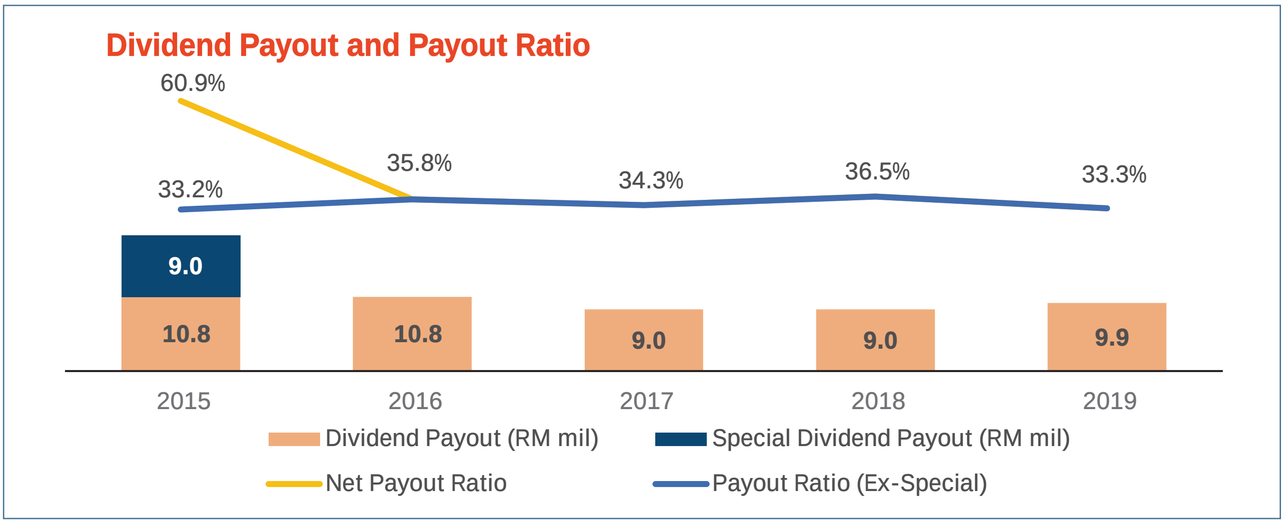

ANTICIPATED/KNOWN RISKS & MITIGATING PLANS/STRATEGIES

The main operational risks faced by the Group are credit default from accounts receivables, inventory holding costs and stock obsolescence. These form the major portion of the total current assets.

The Group therefore places a strong emphasis on policies and monitoring on the following areas:

- Control of credit facilities;
  - Credit approval,
  - Debt management and collection,
- Inventory sell-through and stock ageing; and
- Cash flow management for working capital.

We are not generally exposed to currency exchange risks as we have a practice of hedging forward our USD-denominated purchases by fixing the currency exchange rates on payment due dates. This practice ensures stability in the costing of our trade purchases irrespective of currency market fluctuations.

E-Commerce and the digital economy continued to evolve in 2019, with new channel strategies being adopted by major vendors together with distribution and retail partners as part of a greater Online-to-Offline ("**O2O**") system to better deliver the products to the end users. With the rise of Big Data and Analytics services, we are exploring new revenue streams to further enhance our service offerings to both our vendors and reseller network beyond the traditional distribution of physical products. Furthermore, as part of the Group's efforts to grow the Services segment, we have invested in a local IT Software and Services Company that currently serves the public sector departments and enterprise clients.

MANAGEMENT DISCUSSION AND ANALYSIS
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BUSINESS OUTLOOK

We ended 2019 on a strong financial position with the necessary infrastructure and resources in place to further grow the ICT Distribution, Enterprise Systems and ICT Services segments within the ICT industry. However, the outlook for 2020 may yet be the most challenging time for us and the nation as a whole due to the recent COVID-19 outbreak at the end of 2019 which has since became a global pandemic in March 2020.

The consumer market is expected to be one of the hardest hit in these times as we are faced with the likelihood of a global recession. With this in mind, we will strive to maintain our top position in the ICT Distribution segment with the following strategies:

- launch of new products focusing on value and affordability with best-in-class price to performance ratio;
- prudent management of our credit facilities with caution and empathy for our resellers especially the small and medium business (**"SMB"**) retailers; and
- improving our operational efficiencies with more emphasis on e-Commerce channels for scalability, business and supply-chain efficiency.

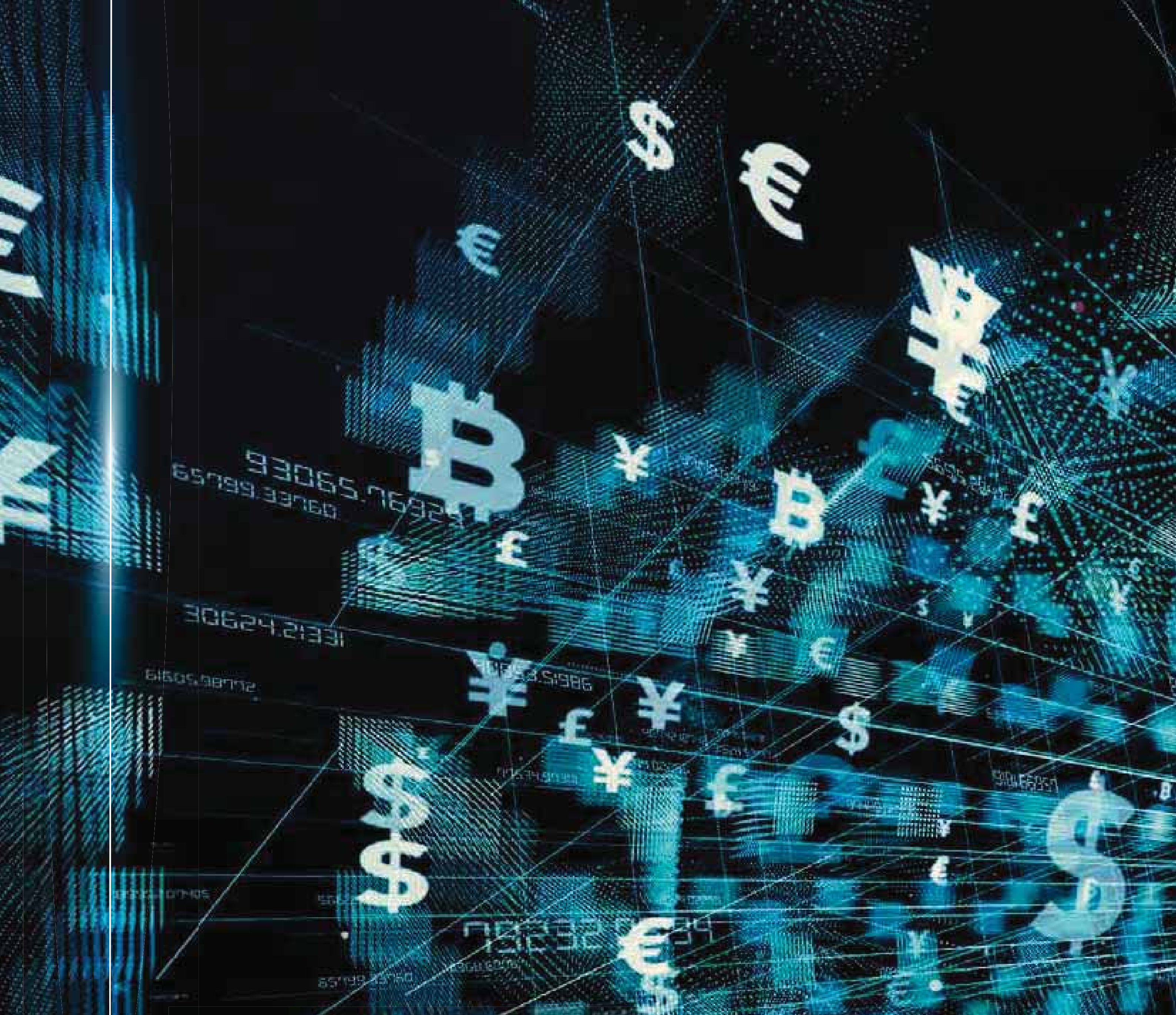
In the Enterprise Systems and ICT Services segments, we shall continue to seek new products to complement our existing range of solutions on datacentre infrastructure, cloud computing, big data analytics, cybersecurity and artificial intelligence ("**AI**"). Furthermore, we shall continue to upgrade the skillsets of our technical engineers to maintain our services and market position in this segment. Notwithstanding the challenging economic climate ahead, we shall be working towards greater synergies with our associate company, ISATEC in bringing their in-house software products to the SMB and Enterprise market via our channel partners. We also look forward to enhance ISATEC's Systems and Consulting Services with our range of Enterprise products. The key focus areas for our Enterprise Segment moving forward would be:

- Core networking infrastructure in support of IoT and 5G deployment;
- Hardware systems for Datacentres, Big Data and Cloud Services; and
- Cybersecurity and AI analytics.

In view of the current economic climate, we shall place a very strong emphasis on business sustainability. We believe that by controlling our costs and improving our operational efficiencies, we shall be in a strong position to weather the current situation to see us through these challenging times.

The Movement Control Order (**"MCO"**) imposed by the Government for the period from March to June 2020 has resulted in disruption of supplies and deliveries in the ICT supply chain. However, our business continuity systems allowed us to continue to maintain services in support of Essential Services as gazetted by the Government. We shall remain cautious and prudent for 2020 with realistic goals to strive the best to keep the company sustainable and profitable in spite of the challenging economic environment.

SOONG JAN HSUNG
Executive Director/Chief Executive Officer



DIGITAL
EMPOWERMENT

Today's pace of the global economy moving at the speed of human spontaneity, and the bedrock that enables this is the power of electronic currency.

The speed of monetary transactions are accomplished by a few hand gestures, a feat seemingly unthinkable in less than a generation ago.

As we embrace on new transactional enablement and technologies, an entirely new eco-system of financial technology beckons more opportunities in the near horizon.

BOARD OF DIRECTORS

WONG HENG CHONG
Independent Non-Executive Director

DATO' KHOO SIN AIK
Independent Non-Executive Director

SOONG JAN HSUNG
Executive Director/ Chief Executive Officer

FOO SEN CHIN
Non-Independent Non-Executive Chairman

ONG WEI HIAM
Non-Independent Non-Executive Director

CHOW YING CHI
Non-Independent Non-Executive Director

HO CHEE KIT
Senior Independent Non-Executive Director

AHMAD SUBRI BIN ABDULLAH
Independent Non-Executive Director

ABDUL AZIZ BIN ZAINAL ABIDIN
Independent Non-Executive Director

PROFILE OF BOARD OF DIRECTORS

FOO SEN CHIN
72
Non-Independent Non-Executive Chairman
Malaysian, Male

Date of appointment as Director	:	21 July 1995
Length of service as director since listing on 15 April 2010 (as at 22 May 2020)	:	10 years 1 month
Board Committee(s) served on	:	Member of the Remuneration Committee
Academic/Professional Qualification(s)	:	Bachelor of Science degree in Electrical and Electronic Engineering from the University of Birmingham, United Kingdom; and Master's degree in Business Administration from the Cranfield School of Management in the United Kingdom
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	Nil
Working experience	:	Foo is the co-founder of VSTECS Berhad and assumed the position of Managing Director in 2000. He is a substantial shareholder of VSTECS Berhad through his substantial shareholdings in Sengin Sdn. Bhd. He was appointed as the Executive Chairman of the Board of VSTECS Berhad on 1 January 2015 and has been re-designated as Non-Independent Non-Executive Chairman on 1 January 2018. He began his career as an Engineer in 1972 with a commercial organisation in the electrical industry for 4 years in Ipoh. In 1977, he joined a multinational company in marketing technical products that included office automation and computer products. In 1982, he was appointed the General Manager of a computer bureau services company in Kuala Lumpur. Foo has been active in the ICT industry in Malaysia for more than 40 years. He has served as a Councillor, Treasurer and Deputy Chairman in The National Tech Association of Malaysia (PIKOM) from 1995 to 2005, and was appointed as an Advisor of PIKOM from 2006 onwards. Foo has played a pivotal role in growing the Group to become one of the largest ICT distributors in Malaysia and established it as the leading distribution hub in supplying ICT products for Malaysia's knowledge-based economy.
Time committed	:	Foo attended all the 4 Board Meetings.

PROFILE OF BOARD OF DIRECTORS
cont'd

SOONG JAN HSUNG
56
Executive Director/Chief Executive Officer
Malaysian, Male

Date of appointment as Director	:	21 February 1997
Length of service as director since listing on 15 April 2010 (as at 22 May 2020)	:	10 years 1 month
Board Committee(s) served on	:	Nil
Academic/Professional Qualification(s)	:	Bachelor of Science (Honours) majoring in Mathematics from the University of Malaya in 1987
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	Nil
Working experience	:	Soong began his career as a Sales Executive with VSTECS Pericomp Sdn. Bhd. in 1987. During the next seven years, Soong's hard work and dedication led to several promotions in sales and marketing position to become the General Manager in 1994. Soong was promoted to Executive Director in 2001 and was appointed as a Deputy Chief Executive Officer of VSTECS Berhad on 1 January 2014. Subsequently, Soong has been promoted to Executive Director/Chief Executive Officer of VSTECS Berhad with effect from 1 January 2015 to lead and manage the Group, in conjunction with the elevation of Foo as the Executive Chairman of the Board. Soong has more than 30 years of experience in the ICT distribution market. He is also an Executive Director of the subsidiary companies, namely, VSTECS Pericomp Sdn. Bhd., VSTECS Astar Sdn. Bhd., VSTECS KU Sdn. Bhd. and VSTECS Kush Sdn. Bhd.. Soong has been primarily responsible for the development of new sales and marketing strategies as well as the ICT product distribution and enterprise systems operations in VSTECS Pericomp Sdn. Bhd. and VSTECS Astar Sdn. Bhd.. Soong has contributed significantly to the Group in becoming the leading ICT hub in Malaysia.
Time committed	:	Soong attended all the 4 Board Meetings.

PROFILE OF BOARD OF DIRECTORS
cont'd

WONG HENG CHONG
70
Independent Non-Executive Director
Malaysian, Male

Date of appointment as Director	:	17 December 2009
Length of service as director since listing on 15 April 2010 (Tenure including the position as Non-Independent Non-Executive Director) (as at 22 May 2020)	:	10 years 1 month
Length of service as director since re-designation as Independent Non-Executive Director on 8 August 2012 (as at 22 May 2020)	:	7 years 9 months
Board Committee(s) served on	:	Chairman of the Audit Committee; and Member of the Nominating Committee
Academic/Professional Qualification(s)	:	Chartered Accountant:- Chartered Accountants Australia and New Zealand; and Malaysian Institute of Accountants Diploma in Management Studies from University of Chicago Graduate School of Business
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	Nil
Working experience	:	Wong began his working career in Coopers & Lybrand in Australia and in Malaysia. He had previously served as an Executive Director of VSTECS Holdings (Singapore) Limited, Boustead Singapore Limited, QAF Limited and Sunshine Allied Investments Limited. His working experience during the last 40 years spanned over diverse industries including Information Technology, engineering, food–manufacturing, retail and wholesale, trading and auditing. He has been re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director on 8 August 2012.
Time Committed	:	Wong attended all the 4 Board Meetings.

PROFILE OF BOARD OF DIRECTORS
cont'd

AHMAD SUBRI BIN ABDULLAH
70
Independent Non-Executive Director
Malaysian, Male

Date of appointment as Director	:	17 December 2009
Length of service as director since listing on 15 April 2010 (as at 22 May 2020)	:	10 years 1 month
Board Committee(s) served on	:	Chairman of the Remuneration Committee; Member of the Audit Committee; and Member of the Nominating Committee
Academic/Professional Qualification(s)	:	Chartered Insurer and Fellow of the Chartered Insurance Institute in the United Kingdom; and Fellow of the Malaysian Insurance Institute
Present Directorship(s)		
(i) Other Public Listed Companies	:	• SBI Offshore Limited
(ii) Public Companies	:	• Berjaya Sompo Insurance Berhad • Pheim Unit Trust Berhad and Group • Malaysian Life Reinsurance Group Berhad
Working experience	:	Subri is a Director of KDU Management Development Centre Sdn. Bhd., Director of SBI Offshore Limited, Singapore and is now serving as the Director and Advisor of Emerio (Malaysia) Sdn. Bhd., an NTT Communications Company. During the year 2017, Subri has been appointed as the Director of Berjaya Sompo Insurance Berhad, Pheim Unit Trust Berhad and Group and Malaysian Life Reinsurance Group Berhad respectively. He was appointed as Non-Independent Non Executive Director of SMITHE Capital Pte. Ltd. in March 2020. Subri has more than 30 years of experience in the Insurance and Financial Services industry and has previously served as Chairman of the General Insurance Association of Malaysia, a Director of the Malaysian Insurance Institute and Malaysia Export Credit Insurance Bhd..
Time committed	:	Subri attended all the 4 Board Meetings.

PROFILE OF BOARD OF DIRECTORS
cont'd

HO CHEE KIT
72
Senior Independent Non-Executive Director
Malaysian, Female

Date of appointment as Director	:	17 December 2009
Length of service as director since listing on 15 April 2010 (as at 22 May 2020)	:	10 years 1 month
Board Committee(s) served on	:	Chairperson of the Nominating Committee; Member of the Audit Committee; and Member of the Remuneration Committee
Academic/Professional Qualification(s)	:	Advocate and Solicitor Bachelor of Arts at the University of New England, Australia in 1971
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	• Yayasan De La Salle • Hospis Malaysia
Working experience	:	Ho worked as an audit assistant in a commercial company in Sydney before returning to Malaysia in 1972. She was attached with a property company in Kuala Lumpur before proceeding to read law at Inner Temple, England in September 1975. She was called to the English Bar in June 1978 and the Malaysian Bar in September 1979. Since then, she has been in private legal practice in Malaysia. Ho is one of the founding partners of a law firm in Kuala Lumpur in which she is currently a consultant. She is an experienced lawyer specializing in corporate, financial, commercial, conveyancing, banking, intellectual and industrial property laws and private clients' and business services. She has previously served as an Independent Director and member of the Audit Committee of Fiamma Holdings Berhad.
Time committed	:	Ho attended all the 4 Board meetings.

PROFILE OF BOARD OF DIRECTORS

cont'd

DATO' KHOO SIN AIK
58
Independent Non-Executive Director
Malaysian, Male

Date of appointment as Director:	:	1 January 2020
Length of service as director since appointment (as at 22 May 2020)	:	0 year 4 months
Board Committee(s) served on	:	Nil
Academic/Professional Qualification(s)	:	Diploma in Business Administration from Business School University of Hull, United Kingdom
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	Nil
Working experience	:	Dato' Khoo is presently Chairman Emeritus of the World Information Technology and Services Alliance ("**WITSA**") and a Member of the Board of FPT Corporation (Vietnam). Dato' Khoo has more than 30 years of experience in the Information Technology industry. He has served in various capacities in public and private sector organisations such as The National Tech Association of Malaysia (PIKOM) (Chairman from 1995 to 1997), Patimas Computers Bhd (Executive Director from 1996 to 1998), Malaysia Digital Economy Corporation ("**MDEC**") (Vice President of Corporate Strategy from 2006 to 2015), WCIT 2008 Sdn Bhd (CEO from 2006 to 2008) and WITSA (Chairman of the Board from 2008 to 2012). Dato' Khoo was the President and Chief Executive Officer of MDEC Americas Inc (Silicon Valley) from 2015 to 2019.
Time committed	:	Not Applicable

PROFILE OF BOARD OF DIRECTORS
cont'd

ABDUL AZIZ BIN ZAINAL ABIDIN
61
Independent Non-Executive Director
Malaysian, Male

Date of appointment as Director	:	1 January 2020
Length of service as director since appointment (as at 22 May 2020)	:	0 year 4 months
Board Committee(s) served on	:	Nil
Academic/Professional Qualification(s)	:	Certificate of Insurance from ITM (MARA Institute of Technology); and Fellowship of the Malaysian Insurance Institute
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	Islamic Banking & Finance Institute Malaysia
Working experience	:	Abdul Aziz has more than 35 years of experience in the Insurance industry and holds a Fellowship of the Malaysian Insurance Institute ("**FMII**"). He was formerly the Chief Executive Officer and a member of the Board of Directors of Sime Darby Lockton Insurance Brokers Sdn. Bhd.. Prior to joining Sime Darby Lockton Insurance Brokers Sdn. Bhd., Abdul Aziz was the Marketing Director of Asia Capital Reinsurance, Malaysia from 2008 to 2012. He was also the Deputy Chairman of Malaysian Insurance Takaful Brokers Association ("**MITBA**"). Abdul Aziz began his career with Tugu Insurance, Malaysia in 1977. He joined Tokio Marine and Fire Insurance as Head of Reinsurance Department handling treaty reinsurance program and facultative reinsurance and had his training in Tokyo, Japan. Currently, Abdul Aziz is the Director of Islamic Banking & Finance Institute Malaysia ("**IBFIM**").
Time committed	:	Not Applicable

PROFILE OF BOARD OF DIRECTORS
cont'd

ONG WEI HIAM
48
Non-Independent Non-Executive Director
Malaysian, Male

Date of appointment as Director	:	4 June 2013
Length of service as director since appointment (as at 22 May 2020)	:	6 years 11 months
Board Committee(s) served on	:	Member of the Audit Committee; and Member of the Nominating Committee
Academic/Professional Qualification(s)	:	Bachelor Degree in Economics from University College London; Master Degree in Analysis, Design & Management of Information Systems from London School of Economics and Political Science; Fellow of the Hong Kong Institute of Certified Public Accountants; and Fellow of Institute of Chartered Accountants in England and Wales
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	VSTECS Holdings Limited (Listed on the Stock Exchange of Hong Kong)
Working experience	:	Ong was appointed as the Group Chief Executive Officer of VSTECS Holdings (Singapore) Limited on 1 January 2013 and was appointed as an Executive Director of VSTECS Holdings (Singapore) Limited on 16 April 2012. Ong is concurrently the Group Chief Financial Officer and Executive Director of VSTECS Holdings Limited, the parent company of VSTECS Holdings (Singapore) Limited.
Time committed	:	Ong attended all the 4 Board Meetings.

PROFILE OF BOARD OF DIRECTORS
cont'd

CHOW YING CHI
51
Non-Independent Non-Executive Director
British, Female

Nil	:	19 June 2017
Length of service as director since appointment (as at 22 May 2020)	:	2 years 11 months
Board Committee(s) served on	:	Member of the Remuneration Committee
Academic/Professional Qualification(s)	:	Bachelor Degree of Arts (Honours) in International Business from the University of Huddersfield in the United Kingdom
Present Directorship(s)		
(i) Other Public Listed Companies	:	Nil
(ii) Public Companies	:	Nil
Working experience	:	Chow has more than 20 years of experience in Information Technology industry. She joined VSTECS Holdings Limited Group ("VSTECS Group") in 1996 and started working in business development for the East and North China Region and was appointed as Operation Director of VSTECS Group in 2002, responsible for the overall business operations and management of VSTECS Group. Chow was the Executive Director and Group Chief Operating Officer of VSTECS Holdings Limited until 31 March 2020 which is listed on the Stock Exchange of Hong Kong. Chow has subsequently been appointed as member of the Nominating Committee on 21 February 2019.
Time committed	:	Chow attended all the 4 Board Meetings.

Notes:-

Save as disclosed above, none of the Directors has:-

(a) any family relationship with any Director and/or major shareholder of the Company;
(b) any conflict of interest with the Company;
(c) any conviction for offences (other than traffic offences) within the past five (5) years; and
(d) any particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF SENIOR MANAGEMENT TEAM

SOONG JAN HSUNG
56, Malaysian, Male
Executive Director/Chief Executive Officer

For the profile of Soong, please refer to page 21 of this Annual Report.

TEE ANG KUAN
58 Years, Malaysian, Male
Group General Manager

Tee was promoted to Group General Manager in 2015 in-charge of the overall distribution and services businesses of the Group. Previously, he was the General Manager of VSTECS ASTAR Sdn. Bhd. overseeing operations, namely, the design and development of business and marketing strategies, marketing and distribution of our ICT products, and sales staff management. Tee graduated with Bachelors of Art (Honours) majoring in Economics from the University of Malaya in 1985. After graduation, he began his career with a computer company in sales line. From 1986 to 1995, Tee worked with several ICT distributors in the sales and marketing of ICT products, such as Notebooks and desktop PCs, printers and software.

In 1996, he joined VSTECS ASTAR Sdn. Bhd. as a Business Manager and was promoted to General Manager in 1999. He has over 30 years of experience in the ICT distribution market. With his experience and knowledge, he has contributed significantly to the growth of our Group.

CHAN PUAY CHAI
53 Years, Malaysian, Male
Chief Financial Officer

Chan was promoted to Chief Financial Officer of our Group in 2016 in-charge of financial planning and control, financial compliances, credit management, risk management, and other financial and management related functions. He is an Associate Member of the Chartered Institute of Management Accountants (U.K.) and a registered Accountant with the Malaysian Institute of Accountants.

His past experiences include review of accounting systems, implementation of computerisation, management accounting, budgeting, corporate exercise, financial analysis and its related functions. In 1995, Chan joined VSTECS KUSH Sdn. Bhd. as a Finance Manager and was promoted to Financial Controller in 2005. He has been with our Group for 24 years. With his vast experience in ICT industry and financial management, he has contributed significantly to the success of our Group.

PROFILE OF SENIOR MANAGEMENT TEAM
cont'd

CHUAH KEE HENG
51 Years, Malaysian, Male
General Manager of VSTECS Astar Sdn. Bhd.

Chuah was appointed as General Manager of VSTECS Astar Sdn. Bhd. in 2016 in-charge of the operations, namely, the design and development of business and marketing strategies, marketing and distribution of our ICT products, and sales staff management.

He graduated with a Degree in Business Administration from Upper IOWA University, USA in 1998. From 1991 to 2016, Chuah worked with several ICT distributors and players in the ICT industry before joining the Group in mid-2016. With his vast experience in ICT industry, he will contribute significantly to the success of our Group.

LI CHIN YEO
46 Years, Malaysian, Male
General Manager of VSTECS Pericomp Sdn. Bhd.

Li was promoted to General Manager of VSTECS Pericomp Sdn. Bhd. in 2018 in-charge of the operations, namely, the design and development of business and marketing strategies, marketing and distribution of our ICT products, and sales staff management. Previously, he was the Assistant General Manager in VSTECS Pericomp Sdn. Bhd.. He graduated with a Bachelor of Commerce from University Of Wollongong, Australia, in 1999. In 2002, he joined VSTECS Pericomp Sdn. Bhd. as Support Executive and subsequently promoted to Technology Specialist in 2003, Assistant Business Development Manager in 2006, Business Development Manager in 2007, Product Manager in 2008 and Senior Manager (Sales) in 2012.

Notes:-

Save as disclosed above, none of the Senior Management has:-

(a) any other directorship in public companies and listed issuers;
(b) any family relationship with any Director and/or major shareholder of the Company;
(c) any conflict of interest with the Company; and
(d) any conviction of offences (other than traffic offences) within the past five (5) years and particulars of any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF MANAGEMENT TEAM

FOO LEK CHOONG

44 Years, Malaysian, Male
Chief Information Officer

Foo is the Chief Information Officer of our Group responsible for the overall IT strategy and technology implementations within the Group. A graduate from Cornell University in 1998 with a degree in Electrical Engineering, he brings a combined 21 years of experience in systems Integration of LAN/WAN systems in the ICT industry and market engagement strategies including product development, management and product life-cycle evolution in a national Tier-1 Telco/ISP environment. In his previous roles in the Telco industry, his responsibilities included partnership and alliance management, engagement in analysis and strategic direction of corporate strategy and various market engagement strategies. Foo's experience extends to product development, management, and service life-cycle sustenance with in-depth experience relating to wired and wireless broadband access services. Foo is the son of the Chairman, Mr. Foo Sen Chin.

CHIN SAI LEONG

60 Years, Malaysian, Male
Senior Logistic Manager

Chin is the Senior Logistic Manager of our Group responsible for the entire warehouse operation of the Group. He obtained a Certificate in Electronics from Tunku Abdul Rahman (TAR) College in 1979 and joined an electronic company as a Technician, providing technical services to customers. He joined a trading company in 1990 as a Service Supervisor in-charge of assisting and supervising the service team. In 1985, he joined VSTECS Kush Sdn. Bhd. as a Service Supervisor and subsequently promoted to Technical Manager in 1991, Logistic Manager in 1997 and Senior Logistic Manager in 2006.

PROFILE OF MANAGEMENT TEAM
cont'd

YEE CHEE YOON

46 Years, Malaysian, Female
Human Resource Manager

Yee is the Human Resource Manager of our Group responsible for the Human Resource ("**HR**") management. She graduated with an Advanced Diploma in Business Administration from Stamford College in 2001 and a Diploma in HR Management from Malaysia Institute of Human Resource Management in 2004. In 1994, she joined a local Bank as a Personal Assistant and was subsequently promoted to HR Officer in 1997. In 2002, she joined a multinational company as an Associate Officer assisting in all HR matters. In 2009, she joined a computer company as a HR & Administration Manager prior joining VSTECS Kush Sdn. Bhd. as a Human Resource Manager in 2014.

CHAI MEIW CHENG

46 Years, Malaysian, Female
Inventory Manager

Chai is the Inventory Manager of our Group since 1 October 2017 and she is responsible for the entire inventory management of the Group. She holds a Diploma in Business Administration. In 1997, she joined VSTECS Pericomp Sdn. Bhd. as sales co-ordinator. She joined VSTECS Astar Sdn. Bhd. in 1998 and was promoted to Order Processing Administrator in 1999, Order Processing Executive in 2006 and subsequently promoted as Senior Order Processing Executive in 2009. In year 2015, she was transferred to VSTECS Kush Sdn. Bhd. as Assistant Inventory Manager and promoted as Inventory Manager in 2017.

PROFILE OF MANAGEMENT TEAM
cont'd

YAP SIEW KEE

39 Years, Malaysian, Male
Senior Services Manager

Yap was appointed as Senior Manager of VSTECS KU Sdn. Bhd on 1 September 2018 and he is responsible for the overall IT sales and services. He graduated with a Degree BSc (Hons) in IT & Computing System from A.P.I.I.T (Asia Pacific Institute of Information Technology) in 2003. He began his working career in VSTECS Pericomp Sdn. Bhd. since 2008 as a Product Manager and was promoted to Senior Manager in early 2012 in managing overall marketing and strategies for System Infrastructure division. In 2017, he was transferred to VSTECS Astar Sdn. Bhd. to lead the enterprise business development team.

INTELLIGENT
AUTOMATION

The power behind the machine today is no longer the hardwired piece of components, but a fusion of hardware and algorithms running in unison.

Artificial intelligence and robotics automation are the new tools that will usher in a new era of human and machine interaction.

We hope that the progress of powerful capabilities would be made with responsibility and mindfulness towards humanity as we embark on the new frontier of reality augmentation.


BIG DATA
SYSTEM 179
SYSTEM 426

CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-Independent Non-Executive Chairman
FOO SEN CHIN

Executive Director/Chief Executive Officer
SOONG JAN HSUNG

Senior Independent Non-Executive Director
HO CHEE KIT

Non-Independent Non-Executive Directors
ONG WEI HIAM
CHOW YING CHI

Independent Non-Executive Directors
WONG HENG CHONG
AHMAD SUBRI BIN ABDULLAH
DATO' KHOO SIN AIK
(Appointed on 1 January 2020)
ABDUL AZIZ BIN ZAINAL ABIDIN
(Appointed on 1 January 2020)
TAY ENG HOE
(Resigned on 1 June 2019)

AUDIT COMMITTEE

Wong Heng Chong - *Chairman*
Ho Chee Kit
Ahmad Subri Bin Abdullah
Ong Wei Hiam

NOMINATING COMMITTEE

Ho Chee Kit - *Chairperson*
Ahmad Subri Bin Abdullah
Wong Heng Chong
Ong Wei Hiam
Tay Eng Hoe *(Ceased on 1 June 2019)*

REMUNERATION COMMITTEE

Ahmad Subri Bin Abdullah - *Chairman*
Foo Sen Chin
Ho Chee Kit
Chow Ying Chi

SECRETARIES

Chua Siew Chuan (MAICSA 0777689)
(SSM PC NO. 201908002648)
Cheng Chia Ping (MAICSA 1032514)
(SSM PC NO. 202008000730)

REGISTERED OFFICE

Level 7, Menara Milenium, Jalan Damanlela
Pusat Bandar Damansara, Damansara Heights
50490 Kuala Lumpur, Wilayah Persekutuan
Telephone : 03-2084 9000
Facsimile : 03-2094 9940
Email : jason.cheng@sshsb.com.my

SHARE REGISTRAR

Tricor Investor & Issuing House Services Sdn. Bhd.
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Wilayah Persekutuan
Telephone : 03-2783 9299
Facsimile : 03-2783 9222

AUDITORS

KPMG PLT, Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan

PRINCIPAL BANKERS

CIMB Bank Berhad
Citibank Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
United Overseas Bank (Malaysia) Berhad

STOCK EXCHANGE LISTING

Listed on Main Market of Bursa Malaysia Securities Berhad on 15 April 2010
Stock Code : 5162
Stock Name : VSTECS
Sector : Technology

GROUP FINANCIAL HIGHLIGHTS

REVENUE

+10.4%

RM 1,802.3 million

2018: RM1,632.3 million

PROFIT AFTER TAX

+20.3%

RM 29.6 million

2018: RM24.6 million

RETURN ON EQUITY

+12.5%

9.9%

2018: 8.8%

EARNINGS PER SHARE

+20.4%

16.5 sen

2018: 13.7 sen

DIVIDEND PER SHARE

+10.0%

5.5 sen

2018: 5.0 sen

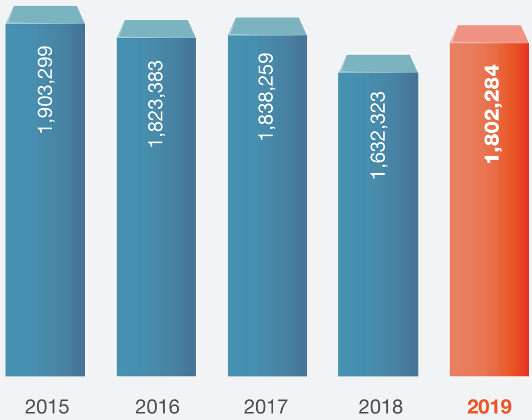
GROUP FINANCIAL HIGHLIGHTS
cont'd

Financial year ended 31 December	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Key Operating Results					
Revenue	1,903,299	1,823,383	1,838,259	1,632,323	**1,802,284**
Gross Profit	97,664	92,609	87,470	86,785	**93,174**
Profit Before Tax	43,614	40,371	35,643	32,775	**39,306**
Profit For The Year	32,488	30,142	26,268	24,604	**29,594**
As at 31 December					
Key Financial Data					
Total Assets	430,102	498,481	472,229	478,539	**547,915**
Total Liabilities	193,320	242,357	199,737	190,443	**240,133**
Total Equity	236,782	256,124	272,492	288,096	**307,782**
Financial Ratio	**%**	**%**	**%**	**%**	**%**
Revenue Growth/(Decline)	19.6	(4.2)	0.8	(11.2)	**10.4**
Return on Equity	14.1	12.2	9.9	8.8	**9.9**
Dividend Yield [1]	7.1	4.3	4.1	5.2	**3.8**
Dividend Payout Ratio [2]	60.9	35.8	34.3	36.6	**33.3**

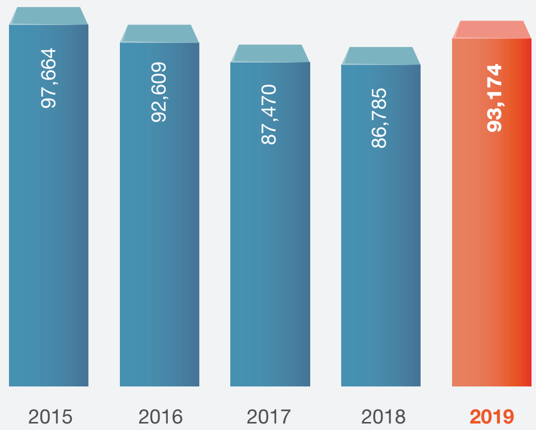
[1] *Based on total dividend, inclusive Special Dividend, as a percentage of VSTECS share price as at 31 December*
[2] *Based on total dividend, inclusive Special Dividend, as a percentage of Basic Earning Per Share*

GROUP FINANCIAL HIGHLIGHTS
cont'd

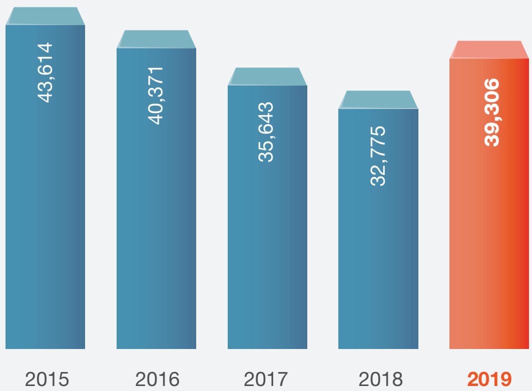
REVENUE
(RM'000)



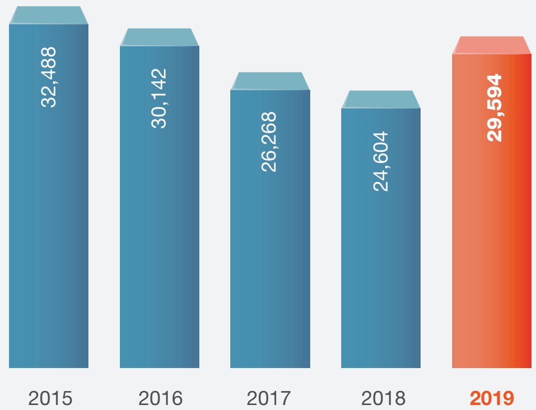
GROSS PROFIT
(RM'000)



PROFIT BEFORE TAX
(RM'000)



PROFIT FOR THE YEAR
(RM'000)



GROUP CORPORATE STRUCTURE

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors ("**the Board**") of VSTECS Berhad ("**VSTECS**" or "**the Company**") believes that good corporate governance ("**CG**") 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.

VSTECS's CG Commitment

The Company and its subsidiaries ("**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 ("**CG Statement**") to provide the investors with an overview of the extent of compliance with three (3) Principles as set out below in the Malaysian Code on Corporate Governance ("**MCCG**") under the stewardship of the Board for the financial year ended 31 December 2019 ("**FY2019**") and/or up to the date of this CG Statement (where applicable)(hereinafter referred to as "**Applicable Period**"):-

Principle A	Principle B	Principle C
Board leadership and effectiveness	Effective audit and risk management	Integrity in corporate reporting and meaningful relationship with stakeholders

This CG 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.vstecs.com.my.

VSTECS's CG Journey

One of VSTECS's vision is to strive for sustainable growth to achieve optimum return for shareholders. The Board intends to meet the said Vision by ensuring that good governance principles and practices are adhered to and permeating throughout the Company and Group.

To ensure the Board continues to apply the best CG practices, during the Applicable Period, the Company Secretary has tabled to the Board, the letter dated 16 October 2019 issued by Bursa Malaysia Berhad in relation to the key observations on CG Reports and CG Overview Statements of Listed Issuers as well as the CG Monitor 2019 (issued by Securities Commission Malaysia in May 2019). The Company Secretary has briefed the Board on the findings of the CG Monitor in order for the Board to deliberate and review the CG performance of VSTECS vis-a-vis to the general levels of CG applications as reported in the CG Monitor 2019, as well as to identify areas for improvement.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

VSTECS's Key CG Focus Area

The Board is pleased to provide below a snapshot of the key CG focus areas during the Applicable Period for information:-

MCCG Practices	Applications by VSTECS
Practice 1.1 **Key Responsibilities of the Board**	√ Strategic planning and direction to Chief Executive Officer ("**CEO**") and his management team. √ Business overview on consumer trends and Group financial performance oversight. √ Risk Management oversight vide the Audit Committee ("**AC**") – which in turn is assisted by the Enterprise Risk Management ("**ERM**") Committee. √ Internal Control and compliance – ensure robustness, adequate and with integrity. √ Stakeholders' communication – designated spokesperson for external parties and general public. √ Human resources planning and remuneration – ensure Executive Management retain key senior management personnel and management with integrity and competence.
Practice 4.1 **At least half the Board comprises independent directors**	√ 55% of the Board comprises Independent Non-Executive Directors ("**INEDs**"), 33% are Non-Independent Non-Executive Directors ("**NINED**") while the remaining 12% is the Executive Director ("**ED**").
Practice 4.7 **Nominating Committee is chaired by an independent director or senior independent director**	√ Ms. Ho Chee Kit, the Senior INED is the Chairperson of the Nominating Committee ("**NC**").
Practice 5.1 **Formal and objective evaluation on Board, its Committees and each individual director**	√ Echoing the theme of "Innovative Transformation", VSTECS has "digitised" the hardcopy assessment forms. √ Directors could complete the online assessment forms at their convenience and the results were electronically compiled. √ Ms. Ho Chee Kit, as the Chair of the NC led the annual review of board effectiveness, ensuring the performance of each director, the Board Committees as well as the Board as a whole were duly assessed by the NC and documented by the Company Secretary.
Practice 9.1 **The Board should establish an effective risk management and internal control framework**	√ A Management Committee known as the ERM Committee, which reports directly to the 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 FY2019, 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

The detail applications of each of the three (3) key CG principles are set out below:-

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

(1) Board Responsibilities

(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;
(b) Overseeing the conduct of the Company's business;
(c) Identification of principal risks and implementation of appropriate internal control and mitigation measures;
(d) Succession planning;
(e) Overseeing the development and implementation of a shareholder communications policy for the Company; and
(f) Reviewing the adequacy and the integrity of the Group's internal control systems and management information systems.

Details of the roles and responsibilities of the Board are set out in Practice 1.1 of the CG Report, available for viewing in the Group's corporate website at www.vstecs.com.my.

(ii) Key Responsibilities of the Board Chairman

The role and responsibilities of the Chairman of the Board have been clearly specified in Paragraph 5.2 of the Board Charter, available for viewing under the "Corporate Governance" section of the Group's corporate website at www.vstecs.com.my.

Mr. Foo Sen Chin ("**Mr. Foo**") is the current Board 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 ED 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 Board 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 Sen Chin as Non-Independent 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 FY2019, Mr. Foo, the Non-Independent Non-Executive Chairman, although not an Independent Director, provides strong leadership and objective judgement with regards to ensuring the adequacy and effectiveness of the Board's governance process.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(1) Board Responsibilities *cont'd*

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

Whereas Mr. Soong Jan Hsung ("**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.

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 Secretaries 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 Secretaries 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 Practice 1.4 of the CG Report, available for viewing in the Group's corporate website at www.vstecs.com.my.

For FY2019, 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 and/or Companies Commission of Malaysia ("**CCM**") for FY2019.

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.

For FY2019, the Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging its functions.

(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, by leveraging on technology, comprehensive meeting papers have been 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.

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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(1) Board Responsibilities *cont'd*

(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's business.

The Board Charter sets out the authority, responsibilities, membership and operation of the Board of the Group, adopting principles of good corporate governance and practice, in accordance with applicable laws in Malaysia.

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.

(vii) Code of Conduct and Ethics

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; and
(b) VSTECS's Code of Conduct.
(Collectively referred to as the "**Codes**")

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

(viii) 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.

As guided by Guidance 3.2 of the MCCG, the Board has adopted a Whistle-Blowing Policy. This Policy shall also similarly apply to all the 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 designated person(s) as set out in Practice 3.2 of the CG Report which available for viewing in the Group's corporate website at www.vstecs.com.my, labelling with a legend such as "To be opened by the AC Chairman/Non-Independent Non-Executive Chairman/CEO or Head of Human Resources only" (where applicable).

For FY2019 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
cont'd

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

(2) Board Composition

(i) At least half of the Board comprises Independent Directors

For the Applicable Period, the Board of the Company consists of nine (9) members comprising one (1) ED and eight (8) Non-Executive Directors, of whom five (5) 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 20 to 28 of this Annual Report.

(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.

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 Stage 1: Review of the potential candidates based on stated criteria, which include gender diversity, 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 whom have served the Board for more than nine (9) years and both have expressed their intention of not seek retention at the forthcoming Twenty-Fourth Annual General Meeting ("**AGM**") of the Company. Therefore, they will retain office until the close of the Twenty-Fourth AGM 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:-

Stage 1	Stage 2	Stage 3 Recommendation
Review of the potential candidates based on stated criteria, with due regard to gender diversity	Board gaps review	Recommendation to the Board

The appointment of Dato' Khoo Sin Aik ("**Dato' Khoo**") and Encik Abdul Aziz Bin Zainal Abidin ("**En. Abdul Aziz**") as the Independent Non-Executive Directors on 1 January 2020 followed the above process. A list of potential Board candidates were independently recommended to the NC for and consideration, without the interference of the Executive Director or Non-Independent Non-Executive Directors. Upon review, the Nominating Committee, having reviewed the skillset, expertise and experience that would be brought forward by Dato' Khoo and En. Abdul Aziz, has recommended both to the Board for approval. Upon deliberation, the Board approved the appointment of Dato' Khoo and En. Abdul Aziz as Independent Non-Executive Directors to with effect from 1 January 2020.

(iv) Board Diversity

The Board has adopted the Board Diversity Policy to affirm 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.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(2) Board Composition *cont'd*

(iv) Board Diversity *cont'd*

Gender Diversity

For FY2019 till to 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**"), the Non-Independent Non-Executive Director, is a member of the Remuneration Committee.

In this regard, the percentage of Board's gender diversity stood at 22%.

Bearing in mind that an appointment to the Board is a long-term commitment to the Company and upon assessment for FY2019, 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 decide 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. He is now joined by En. Abdul Aziz, an Independent Non-Executive Director.

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 56 years of age; while Dato' Khoo, an Independent Non-Executive Director, is 58 of age, Mr. Ong Wei Hiam and Ms. Chow, the Non-Independent Non-Executive Directors, are 48 and 51 years of age respectively, which underlines the Board's commitment to age diversity at the Board level appointment.

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 could have a better outlook on the trends and development on various jurisdictions in which the Group were operating.

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

cont'd

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

(2) Board Composition *cont'd*

(v) Nominating Committee *cont'd*

For FY2019, the Nominating Committee comprises exclusively of Non-Executive Directors, majority being Independent Non-Executive Directors, i.e. three (3) 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 *(Chairperson)*	2/2
Ahmad Subri Bin Abdullah *(Member)*	2/2
Wong Heng Chong *(Member)*	2/2
Ong Wei Hiam *(Member)*	2/2
Tay Eng Hoe *(Member)* (Ceased on 1 June 2019)	1/1

The Nominating Committee met two (2) times during the financial year under review for undertaking the following activities:-

(a) Conducted the online assessment of the Audit Committee Members' 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-Independent 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 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;
(j) Reviewed and recommended to the Board, the appointment of two (2) new Independent Directors;
(k) Reviewed and recommended to the Board, the renewal of Service Agreement for Mr. Foo Sen Chin as an Advisor of the Company; and
(l) Discussed and recommended to the Board, the renewal of Service Agreement for Mr. Soong Jan Hsung as the CEO of the Company.

For the Applicable Period, Ms. Ho informed that she has not received any letter of concern from any shareholders.

Directors' Time Commitment

The Board requires its members to devote sufficient time to the workings of the Board, to effectively discharge their duties as the 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 2019, 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 the 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 FY2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(2) Board Composition *cont'd*

(v) Nominating Committee *cont'd*

For FY2019, 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 FY2019 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%
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%
Tay Eng Hoe (Resigned on 1 June 2019)	2 out of 2	100%
Dato' Khoo Sin Aik (Appointed on 1 January 2020)	Not applicable	Not applicable
Abdul Aziz Bin Zainal Abidin (Appointed on 1 January 2020)	Not applicable	Not applicable

The Board will also meet on an ad-hoc basis to deliberate urgent issues and matters that require expeditious Board's direction or approval. In the intervals between Board Meetings, any matters requiring urgent Board's 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.

Protocol for acceptance of New Directorships

The Board has formalised in 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 FY2019, the Company has not received any notification from any 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. The newly appointed Independent Non-Executive Directors, Dato' Khoo and En. Abdul Aziz had completed the Mandatory Accreditation Programme in January 2020, within the timeframe i.e. four (4) months from the date of appointment as prescribed by Bursa Securities.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(2) Board Composition *cont'd*

(v) Nominating Committee *cont'd*

Directors' Training *cont'd*

For FY2019, the Directors had participated in the following training programmes in addressing their own training needs (hereinafter referred to as the "2019 Directors' Trainings"):-

Name of Directors	Trainings Programmes/Seminars/Forums Attended
Foo Sen Chin	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting • Preparation for Corporate Liability on Corporation • Corporate Governance & Anti-Corruption
Soong Jan Hsung	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting • Preparation for Corporate Liability on Corporation • Talk on Corporate Liability • Corporate Governance & Anti-Corruption
Wong Heng Chong	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting
Ahmad Subri Bin Abdullah	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting • Understanding Fintech and its implications for insurance companies • IT Risk Management Training
Ho Chee Kit	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting
Ong Wei Hiam	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting
Chow Ying Chi	• Malaysia ICT Overview 2019 and Beyond • Sustainability Reporting

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 2019 Directors' Trainings were adequate.

2020 Directors' Training Needs

Upon review of the training needs of the Directors for the financial year ending 31 December 2020 ("**FY2020**"), the Board has requested Management to arrange the courses in relation to the information and communications technology topic to be organised as part of the Directors' continuing education programmes for the FY2020.

(vi) Annual Assessment of the Board

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;
(b) Evaluation on the effectiveness of the Board of Directors and the Board Committees;
(c) Evaluation on the contribution of the CEO;
(d) Evaluation on the contribution of the Non-Independent Non-Executive Chairman; and
(e) Annual Assessment of Independence of Directors.

Details of the assessments are set out in Practice 5.1 of the CG Report, available for viewing in the Group's corporate website at www.vstecs.com.my.

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*

Re-election/Re-appointment to the Board

(a) 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 Constitution 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 Clause 21.6 of the Constitution of the Company, the following Directors are to retire at the forthcoming Twenty-Fourth AGM (hereinafter referred to as "**Retiring Directors**"):-

- Mr. Foo Sen Chin; and
- Mr. Ong Wei Hiam.

The Nominating Committee has conducted the following assessment based on the criteria as prescribed by the Main LR of Bursa Securities for the Retiring Directors:-

- Mix of skills;
- Character;
- Experience;
- Integrity;
- Competence; and
- Time commitment to discharge their roles.

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.

(b) Re-appointment to the Board

Pursuant to Clause 21.10 of the Constitution of the Company, any person appointed by the Board either to fill a casual vacancy or as an addition to the existing Directors, shall hold office until the conclusion of the next AGM and shall then be eligible for re-election.

Dato' Khoo and En. Abdul Aziz have been appointed as the Independent Non-Executive Directors on 1 January 2020. They are then required to retire at the forthcoming Twenty-Fourth AGM pursuant to Clause 21.10 of the Constitution of the Company.

Dato' Khoo and En. Abdul Aziz, as the Independent Non-Executive 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 of 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

(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 FY2019, the Remuneration Committee comprises solely of Non-Executive Directors/Chairman and two (2) of them are Independent Directors during FY2019.

The Remuneration Committee of the Company was formed to recommend to the Board the remuneration package of ED 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 *(Chairman)*	1/1
Ho Chee Kit *(Member)*	1/1
Foo Sen Chin *(Member)*	1/1
Chow Ying Chi *(Member)*	0/1

The remit of the Remuneration Committee is governed by the TOR of the Remuneration Committee. A 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 FY2019, reviewed and recommended to the Board for approval the following matters:-

(a) the Group's total bonus for year 2018 and total salary increment for year 2019;
(b) the bonus payments to Mr. Soong Jan Hsung as CEO for year 2018;
(c) the bonus payment to the senior management team for year 2018;
(d) the remuneration package of the ED/CEO for year 2019;
(e) the increments to the senior management team for year 2019;
(f) the Directors' and Board Committee's fees for FY2019;
(g) the payment of benefits payable to the Directors under Section 230(1)(b) of the CA 2016; and
(h) the salary increment for the lower ranking staffs of the Company.

(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 in compliance with Practice 6.1 of the MCCG.

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.

(iii) Details of Each Individual Director's Remuneration for FY2019

The Remuneration Committee recommends to the Board the policy and framework of the Directors' remuneration and the remuneration package of the ED. 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.

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 FY2019 *cont'd*

For FY2019, the aggregate of remuneration received and receivable by the Non-Executive Directors/Chairman of the Company and the Group categorised into appropriate components are as follows:-

Received 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
Non-Executive Directors						
Foo Sen Chin	-	69	3	-	-	72
Ho Chee Kit	-	62	6	-	-	68
Tay Eng Hoe (Resigned on 1 June 2019)	-	20	1	-	-	21
Wong Heng Chong	-	60	5	-	-	65
Ahmad Subri Bin Abdullah	-	62	6	-	-	68
Ong Wei Hiam	-	55	6	-	-	61
Chow Ying Chi	-	47	3	-	-	50
	-	375	30	-	-	405

Received 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	1,677	46	-	-	21	1,744
	1,677	46	-	-	21	1,744
Non-Executive Directors						
Foo Sen Chin	-	73	3	360	20	456
Ho Chee Kit	-	62	6	-	-	68
Tay Eng Hoe (Resigned on 1 June 2019)	-	20	1	-	-	21
Wong Heng Chong	-	60	5	-	-	65
Ahmad Subri Bin Abdullah	-	62	6	-	-	68
Ong Wei Hiam	-	55	6	-	-	61
Chow Ying Chi	-	47	3	-	-	50
	-	379	30	360	20	789

Note: Salaries include bonus and EPF

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(3) Remuneration *cont'd*

(iv) Details of Top Five (5) Senior Management's Remuneration for FY2019

In accordance with Practice 7.2 of the MCCG, a band of the remuneration for the top five senior management (excluding the Executive Director of the Company), during FY2019 are as follows:-

	Senior Management
RM950,001 to RM1,000,000	1
RM600,001 to RM650,000	1
RM450,001 to RM500,000	1
RM400,001 to RM450,000	2

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

(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 72 to 76.

As at the date of this Statement, the Chairman of the Audit Committee is Mr. Wong Heng Chong, an Independent Non-Executive Director while Mr. Foo Sen Chin 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 Audit Committee 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 FY2019, the Audit Committee has formalised the policy and procedures to assess the suitability, objectivity and independence of external auditors ("**the EA Policy**").

Pursuant to the EA Policy, the Audit Committee has conducted an annual assessment on the external auditors for FY2019.

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.

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*

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.

The Audit Committee noted, for FY2019, 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 FY2020. The Board has in turn recommended the same for shareholders' approval at the forthcoming Twenty-Fourth AGM of the Company.

During FY2019, 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.

(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.

Details of the ERM Committee are set out in Practice 9.1 of the CG Report, available for viewing in the Group's corporate website at www.vstecs.com.my.

The Statement on Risk Management and Internal Control of the Group as set out on pages 68 to 71 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 FY2019, the Board opined that the risk management and internal controls of the Group were effective and adequate.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

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

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

(i) Insider Dealing Policy
(ii) Succession Planning Policy
(iii) Related Party Transaction Policy

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

Internal Audit Function

The Outsourced Internal Auditors and In-House Internal Audit Manager communicate regularly with and report directly to the Audit Committee. For FY2019, 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 7 November 2018, 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 2019, encompassing the following audit visits and timing:-

(a) First Visit (January – June 2019)

VSTECS Pericomp Sdn. Bhd.
- Project Management
- Credit Control

VSTECS Ku Sdn. Bhd.
- Support Services
- Credit Control

VSTECS Berhad Group
- Half-yearly Recurrent Related Party Transactions Review

(b) Second Visit (July - December 2019)

VSTECS Berhad Group
- Security & Access Control to Enterprise Resource Planning ("**ERP**") Database and Reporting Portal
- Procurement & Accounts Payable Management
- Vendor and Service Provider Contract Management
- Half-yearly Recurrent Related Party Transactions Review

The Audit Committee has resolved that the Outsourced Annual Audit Plan for year 2019 be approved for adoption.

For FY2019, the Outsourced Internal Auditors have successfully completed their audit visits and reporting as per the approved Outsourced Annual Audit Plan.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

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

In-House Internal Audit Department

The In-House Internal Auditors communicate regularly with and report directly to the Audit Committee. For FY2019, the In-House Internal Auditors met up four (4) times with the Audit Committee.

At the Audit Committee Meeting held on 7 November 2018, the In-House Internal Audit Manager has presented to the Audit Committee the In-House Internal Audit Function's Audit Plan for year 2019, encompassing the following key areas:-

- Human Resource – First Quarter 2019
- ERP Usage – Second Quarter 2019
- Credit – Third Quarter 2019
- Physical Inventory Management – Fourth Quarter 2019

The Audit Committee has subsequently approved the In-House Audit Plan for year 2019.

For FY2019, 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 2019.

Internal Audit Assessment

The Audit Committee had conducted an Internal Audit Assessment annually to review the adequacy of the scope, functions, competency and resources of the internal audit function to ensure that it has the necessary authority to carry out its work and to perform its function effectively in accordance with relevant professional standards.

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

(1) Communication with Stakeholders

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

(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.

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 cont'd

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

Primary Spokespersons:-	
(i) Non-Independent Non-Executive Chairman (ii) CEO	The Company's Non-Independent Non-Executive Chairman and CEO 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:-	
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.

For FY2019, the Company has held two (2) 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, **Investor Relations** and **Corporate Governance** sections to ensure more effective dissemination of information.

Publication of Notice of AGM on Corporate Website

Pursuant to Section 320(2) of the Companies Act 2016, a copy of the Notice convening the Twenty-Fourth AGM together with the proxy form are available at the corporate website of VSTECS Berhad at https://vstecs.listedcompany.com/ar2019.html.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

(2) Conduct of General Meetings

(i) Notice of AGM

The Annual Report, which contains the Notice of AGM, was sent to shareholders at least twenty-eight (28) days prior to the date of the meeting to give sufficient time to shareholders to make the necessary arrangements to attend and participate in person or through corporate representatives, proxies or attorneys as well as to let the shareholders to consider the resolutions that will be discussed and decided at the AGM. The Notice of AGM, which sets out the businesses to be transacted at the AGM, 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 16 April 2019, issued its Notice of Twenty-Third AGM of the Company, at least twenty-eight (28) days prior to the date of the meeting i.e. 15 May 2019. The Notice clearly identified the directors seeking re-election, the auditor seeking re-appointment and the Notice of Dividend Entitlement.

(ii) Attendance of Directors at General Meetings

All Board members, save for the former Director, Mr. Tay Eng Hoe who was absent due to prior overseas engagement, attended the Twenty-Third AGM of the Company held on 15 May 2019 and provided responses to the shareholders on the key matters arose during the Meeting. Mr. Soong Jan Hsung, the CEO had presented a short review of the Company's 2018 performance and key initiatives for 2019 to the shareholder on operations highlights, financial snapshot, growth strategies and investment highlights.

(iii) Poll Voting

The Company had conducted the electronic poll voting for all resolutions set out in the Notice of Twenty-Third AGM at the Twenty-Third AGM held on 15 May 2019. The Company has appointed an independent scrutineer to validate the votes cast at the Twenty-Third AGM. The poll results were announced by the Company to the Bursa Securities on the same day.

Key CG future priorities for financial year ending 31 December 2020 ("FY2020")

(1) Anti-corruption and Whistleblowing Practices

In line with global trends in anti-corruption legislations, amendments to the Malaysian Anti-Corruption Commission Act 2009 ("**MACC 2009**") have been passed by Parliament, which will be enforced on 1 June 2020 to introduce the new concept of corporate liability for corruption in Malaysia.

The Board noted that the Guidelines on Adequate Procedures was issued by the Prime Minister's Department in December 2018 pursuant to Section 17A(5) of the MACC 2009 ("**Guidelines**") for commercial organisations (which include VSTECS Group) in preventing the occurrence of corrupt practices.

Stand guided by the five principles as illustrated in the Guidelines, for FY2020, the Board would be taking steps and actions to prevent the occurrence of corrupt practices:-

- Top Level Commitment;
- Risk Assessment;
- Undertake Control Measures,
- Systematic Review, Monitoring and Assessment; and
- Training and Communication.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
cont'd

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

Key CG future priorities for financial year ending 31 December 2020 ("FY2020") *cont'd*

(2) Outbreak of Coronavirus Disease ("COVID-19")

Following the Movement Control Order imposed by the Government for the period from 18 March 2020 to 31 March 2020 and further extended to 9 June 2020, the immediate priority of the Board is to work with Management to activate their business continuity plan to minimise the financial impact to VSTECS Group.

The Board would also encourage the Management to instil risk awareness and ensure Management comply with the relevant preventive measures mandated by the regulatory authorities as well as to maintain good corporate conduct, in particular, the corporate obligations to maintain a safe and high level workplace hygiene as well as to provide the necessary items such as face masks, hand sanitisers and infrared thermometer, social distancing arrangement at office cafeteria and constant communications to the staff of the Group to maintain good conduct and personal hygiene.

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.vstecs.com.my.

This CG Statement and the CG Report have been approved by the Directors in accordance with a Resolution of the Board of Directors passed on 13 May 2020.

SUSTAINABILITY STATEMENT

As the leading distributor of ICT products and Enterprise Systems in the nation amidst the fast-evolving ICT technology space, we play an important role in driving the Malaysian digital economy.

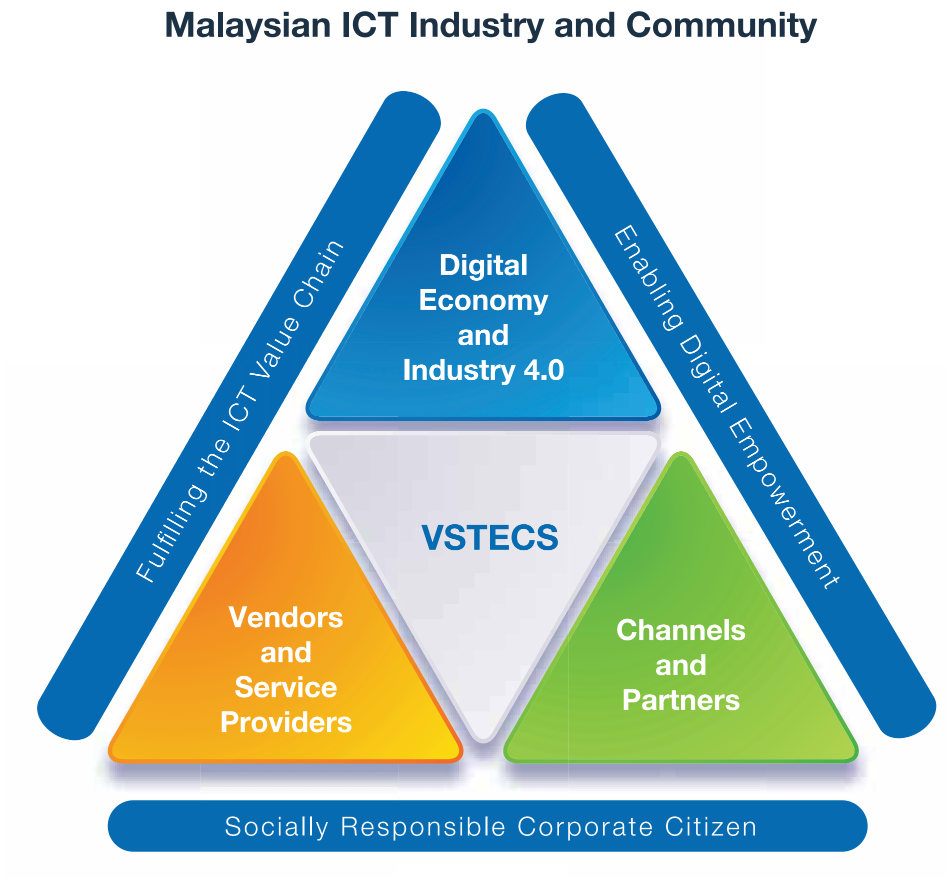


Diagram 1: Role of VSTECS within the Malaysian ICT Industry

With our Mission Statements as our guiding principles, we are committed on a continuous strategy to put in practice long term sustainability goals at all levels of our business operations. The Board acts as an advisory body overseeing the overall Economic, Environmental and Social (**"EES"**) structure that encompasses our sustainability framework. Within the EES structure, a robust Enterprise Risk Management (**"ERM"**) methodology identifies and addresses both external and internal risk factors with mitigation and contingency-readiness action plans. The ERM committee is chaired by the CEO and meets on a quarterly basis. Within the ERM committee are two sub-committees with the following key responsibility areas:

- Environmental and Social Committee (**"ESC"**) for Sustainability, headed by the Chief Financial Officer (**"CFO"**):-
  - Identify, evaluate and manage environmental impacts arising from business operations;
  - Identify, address and improve on workforce environment and social well-being;
- Health and Safety Committee (**"HSC"**), headed by the Senior Logistics Manager and Safety Officer:-
  - Monitor and enforce Occupational Safety and Health Act (**"OSHA"**) regulations and workplace safety;
  - Monitor and improve awareness on workplace safe-practices and staff health.

SUSTAINABILITY STATEMENT
cont'd

Diagram 2: EES Governance Structure

Diagram 3: ERM Structure and Operational Tasks

Our major stakeholders that form part of our corporate eco-system are the following:

- Employees;
- Vendors whose brand and products we represent;
- Channel and Service partners;
- Operational Suppliers and Service Providers;
- Shareholders of the Company;
- Community where we operate.

Taking into consideration the above, we have identified the following Key Material Issues within our Value Chain:

Value Chain	Sustainability Material Issues						
	Supply Chain	Financial and Credit control	Inventory Control	Operational Resiliency	Talent and Workforce	Data Protection	Anti-Corruption
Strategic Business Direction	✓			✓	✓		✓
Brand representation	✓		✓		✓		✓
Sales and Distribution	✓	✓	✓			✓	✓
Warehousing and Logistics	✓		✓	✓			
Operations and IT/ERP Infrastructure	✓	✓	✓	✓		✓	✓
Service and Support to Channel Partners	✓				✓	✓	✓

Table 1: Mapping of Key Sustainability Matters to Value Chain Roles

Supply Chain

The Group plays a crucial role in the supply chain for the flow of consumer ICT products and Enterprise Systems to the end users via our resellers. Our main focus is to maintain market presence and relevance within the context of ICT distribution by adapting to the continuously evolving nature of the business. This is best illustrated in the recent emergence of online channels as a significant contributor of sales and distribution. We are continuously enhancing our IT infrastructure to better support our channel partners and resellers throughout the country.

Financial and Credit Control

As a responsible corporate entity, we seek to have the best balance in facilitating sales growth of our channel partners while keeping credit exposure in check. Our long established practices and credit policies have been implemented and continuously refined over the years to ensure an optimised mode of credit facilitation control and tight monitoring of our receivables.

Inventory Control

Being a distributor of over 45 global ICT brands, we constantly manage inventory requirements and stock obsolescence risks. We closely monitor and review product stocking levels at all times with a balance between anticipation of new-market trends and quick reaction to changes in market consumption patterns.

Operational Resiliency

An effective Enterprise Resource Planning (ERP) is the core of our business operations. We have in place a robust IT infrastructure that is continuously updated to cater for the demands and rigours of the daily operations involving hundreds of transactions on a daily basis.

SUSTAINABILITY STATEMENT
cont'd

Talent and Workforce

In acknowledging that the "People Make the Difference" in our organisation, we are ever mindful to have the right talent, experience and skillset to operate the business. Our employees not only represent the Company, but are also part of the global brands they market and support. We take a holistic approach to talent sourcing and retention within the Company including continuous upgrading of skillsets and relevancy to ensure employee growth and enrichment within all levels of the organisation. The Company practices a strict policy of anti-discrimination against any gender, religious, racial or cultural background.

Data Protection

In being a channel-centric organisation in the ICT industry, we are naturally the custodian of a highly diverse and substantial quantum of customer database information with an even greater volume of transactional data. We have in place strict policies and enforcement procedures in the handling of such information as required by law and the Group's policies. Furthermore, product pricing and promotional information are closely guarded due to the sensitive nature of the market competitive landscape.

Anti-Corruption

In line with the nation's aspirations in eliminating all forms of bribery and corruption, our workforce is held to the strictest standards in compliance with the law. We believe in full transparency in the conduct of our business with the vendors and channel partners. We strive to keep communications with all stakeholders in a transparent and factual manner at all times. Open, honest and transparent conduct at all levels form part of our corporate culture which we strongly believe is always the best approach for long-term sustainability.

Enterprise Risk Management

In support of our overall sustainability framework, members of the top management identify specific risk profile areas, formulate the necessary plans, and implement them to address the identified issues within the ERM's quarterly review.

The following is a mapping of the major key ERM focus areas with regards to the overall Sustainability Goals:

Risk Management Areas		Sustainability Material Issues						
		Supply Chain	Financial and Credit control	Inventory Control	Operational Resiliency	Talent and Workforce	Data Protection	Anti-Corruption
External Risks	Economic Climate	✓	✓	✓				
	Industry Position	✓	✓			✓		
	Market Competition	✓	✓			✓		
	Vendor Relations	✓		✓				✓
Internal Business Risks	Credit Exposure	✓	✓	✓				
	Fraud Risk		✓				✓	✓
	Inventory Management		✓	✓	✓			
	Finance and Working Capital		✓	✓				
Internal Operational Risks	Key Personnel and Functional Roles				✓	✓		
	IT Systems		✓	✓	✓		✓	✓
	Corporate Governance and Legal Compliance	✓				✓	✓	✓
	Confidential Information Protection						✓	

Table 2: Mapping of Key Sustainability Matters to ERM Framework

SUSTAINABILITY STATEMENT
cont'd

External Risks

1. The management continuously monitors various economic indicators that would influence the Group's revenue. These include the consumer index, governmental fiscal budget, industry spending forecasts and also overall regional market trends. As an associate of the regional VSTECS group based in Hong Kong, we participate regularly in regional meetings on industry trends, market direction and growth strategies.

2. To maintain the Group's leading position in the industry, we are constantly exploring new business segments that have synergistic and complementary role to our core businesses. This includes channel growth strategies for our existing brand representation, new initiatives into new segments within the ICT industry, and expansion into application software and IT services.

3. Close monitoring of local market conditions is crucial to the business and this includes keeping abreast of new developments within industry peers including merging of IT distributors, entry of foreign entities and also changes of distribution models effected by various vendors. In order to maintain our competitive advantage, we have a team of more than 40 industry-certified support personnel in both pre and post-sales roles supporting our System Integration partners in the market.

4. With regards to the management of vendor relations, we actively seek dynamic partnerships with our vendors to ensure a mutually beneficial working relationship for all parties concerned. We strive to meet the expectations of the vendors with our commitment in marketing their products. As at December 2019, we represent a total of 48 ICT brands.

Internal Business Risks

We have three key areas that are strictly monitored as part of our business operations:

1. Credit and fraud risks are governed by a strict operational policy of credit eligibility assessment and system embedded controls including risk of fraud and potential credit defaults. As at FY2019, our bad debt impairment of RM534,000/- amounted to 0.03% against a revenue of RM1.80 billion.

As at 31st Dec RM '000	2019	2018	2017
Trade Receivables	284,123	251,838	268,158
Impairment Loss	(534)	(682)	(598)
Impairment % on Receivables	0.19%	0.27%	0.22%

Table 3: Impairment against Trade Receivables

2. Effective inventory management is also a close-monitored metric whereby stock levels and trade purchases are controlled by a dedicated working team within the Group. Each product manager is held accountable for the forecasting, purchase request, and inventory level management of the brands under their care. Stocking levels are monitored on a sell-through basis with effective reporting of stock levels at time aging intervals.

As at 31st Dec RM '000	2019	2018	2017
Inventories	131,625	132,748	122,980
Inventory Write-downs	(1,342)	(442)	(148)
% against Inventories	1.02%	0.33%	0.12%

Table 4: Inventory Write-down against Inventories

3. The above two points coupled with prudent management of cash reserves and working capital form the foundation of effectively managing the main financial risks within the Group. The Group has had no borrowing since 2011, one year after our Initial Public Offering in 2010 as a result of a robust framework in managing working capital within all levels of operations.

SUSTAINABILITY STATEMENT
cont'd

Internal Operations Risks

1. The core of any organisation is its people and hence we strongly adhere to the motto that "Technology is a tool, people make the difference". We are an equal opportunity employer based on meritocracy and performance. As at 1st March 2020, the Group has the following workforce composition:

Total Employees	364	
Male : Female Ratio	50.3 : 49.7	
Age Range	34 and below	49%
	35-44	35%
	45 and above	16%

Table 5: Employee Statistics

To maintain an effective and dynamic workforce, the Group has in place a training and development programme that is actively implemented, tracked and reported to the ERM Committee. Furthermore, the EES Governance board reviews the Succession Plan of Key Management roles on an annual basis.

2. The IT and ERP infrastructure within the Group serves as the engine that powers the business along the lines of policy enforcement, transactional integrity, approval matrices and operational efficiency. The Group maintains and keeps up-to-date a Business Continuity Management (BCM) programme that has been in place since 2013 to ensure continuity of business operations in the face of unforeseen incidents and disruptions from events beyond our control. A hybrid of on-premise, remote-site and cloud-based architecture ensures system resiliency and operational efficiencies at all times.

3. To ensure compliance of the Group's policies, procedures and internal system processes, we have posted the relevant information at the Group corporate website as well as the office intranet for the benefit of all our employees.

Good Corporate Citizenship

In the Group's efforts towards a greener environmental, social and corporate governance perspective, we take positive steps to minimise our impact on the environment by promoting a greener work culture at all levels of the organisation. We believe that everyone can play a proactive role in doing our part towards environmental friendly goals. We are ever mindful of recycling and minimising waste in our business activities. As our nature of business entails handling voluminous amounts of packaging, material reusability and recyclability forms a core part of our warehousing and logistics operations. Furthermore, electricity, water and stationery consumption are continuously monitored and reduced whenever possible with regards to our business transactional volume to further reduce the Group's carbon footprint.

Our fully automated B2B system operates online 24/7 for order processing, invoicing and payment transaction with no human touch (until the physical handling of stock in the logistics department onwards) and with minimal office consumables. With the investment into an ICT Software and Service company in 2019, we are further embarking on digital transformation initiatives to reduce internal paper usage at all administrative levels.

In line with the Group's effort to improve re-usability of packaging materials in outbound shipments, the tonnage of paper and plastic sent for recycling has been further reduced even though sales increased in 2019. Administrative and operational paper utilisation increased by 5.8% in comparison with the Group's revenue growth of 10.4% in 2019 against the previous year due to management's emphasis to reduce paper usage and encourage greener work practices.

Packaging Materials Recycled (kg)			**Group Revenue (RM 'Mil)**	
	2019	**2018**	**2019**	**2018**
Paper	8,784	9,423	1,802	1,632
Plastic	130	255		
Paper Utilization (70gsm ream, 500 sheets per ream)				
Reams	1,650	1,560		

Table 6: Packaging Recyclability

SUSTAINABILITY STATEMENT
cont'd

Good Corporate Citizenship *cont'd*

Despite the staff force increasing by 2.9% in 2019, water usage reduced by 1.4% against the previous year owing to best practices of water conservation methods and closer monitoring of water usage within the building premises. Electricity consumption increased by 6.7% in 2019 against the previous year mainly attributed to increased sales activities in 2019 requiring longer working hours at the sales department and warehouse facilities.

Our outstation branch offices are not significant consumers of water and electricity and are therefore not currently tracked in the table below*.

Consumption of Utilities (at the head office)			**Staff Strength** (as at 31st Dec)	
	2019	**2018**	**2019**	**2018**
Electricity (kWh)	838,533	785,656	358	346
Water (m^3)	3,835	3,891		

Table 7: Consumption of Utilities

The ESC and HSC sub-committees are tasked in ensuring that the Group strives to operate in a green and eco-friendly manner wherever possible.

* *The total electricity and water consumption of all branches combined is less than 10% of the head office and therefore deemed insignificant.*

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors of VSTECS Berhad ("**VSTECS**") is pleased to present its Statement on Risk Management and Internal Control for the financial year ended 31 December 2019, 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 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 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 risk identified were recorded for review, risk profiling and mitigating actions.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

ENTERPRISE RISK MANAGEMENT *cont'd*

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 and incidences. Risks mitigation programme would include policy changes, establishment on new procedures, improvement in system controls, surveillance report and other measures. For the financial 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.

JOINT VENTURE AND ASSOCIATE

The disclosures in this statement do not include the risk management and internal control practices of the Group's joint venture and associate companies, namely Enrich Platinum Sdn. Bhd. ("**EPSB**") and ISATEC Sdn. Bhd. (formerly known as I.S.A. Technologies Sdn. Bhd.) ("**ISATEC**") respectively. The Group's interests in these entities are safeguarded through the appointment of members of the Group to the board of EPSB and ISATEC.

BUSINESS CONTINUITY MANAGEMENT

The Board is aware of the importance of an effective Business Continuity Management ("**BCM**") programme particularly in crisis and disaster management of 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 2 April 2019 and 1 October 2019 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 timeframe. The status of implementation is monitored through follow-up audits which are also reported to the Audit Committee.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

INTERNAL AUDIT FUNCTION *cont'd*

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) Management has also established committees with appropriate empowerment to ensure effective management and supervision of the Group's core business operations. These committees include the Management Committee, ERM Committee, Operation Committee, Credit Control Committee, Inventory Control Committee and Logistics Committee.

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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

cont'd

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 2019, 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 this 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 this 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 financial 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 are 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 13 May 2020.

REPORT OF THE AUDIT COMMITTEE

The Board of Directors of VSTECS 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 2019 ("**FY2019**").

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 the FY2019, 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)	38th AC Meeting	20 February 2019	√
(2)	39th AC Meeting	15 May 2019	
(3)	40th AC Meeting	7 August 2019	
(4)	41st AC Meeting	6 November 2019	√

For FY2019, 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 the FY2019:

(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 FY2019:-

   - Changes in Implementation of Major Accounting Policy;
   - Allowance for Doubtful Accounts;
   - Inventory Obsolescence;
   - Monitoring of Key Financial Liabilities; and
   - 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 FY2019;

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 FY2019 before recommending to the Board their re-appointment and fixing their remuneration at the forthcoming Twenty-Fourth Annual General Meeting in year 2020; 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 2020 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 FY2019 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 2020 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 FY2019 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 the Group for the applicable period; 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 reviewed the overall risks assessment template with records of events and impact for year 2019 and ERM decided to change in risk ranking of the Corporate Governance & Compliance Risk due to the amendments to Malaysian Anti-Corruption Commission (Amendment) Act 2018 ("**the Act**") has imposed a new corporate liability on commercial organisations for failure to prevent corruption.

REPORT OF THE AUDIT COMMITTEE
cont'd

INTERNAL AUDIT FUNCTION AND ACTIVITIES

Internal Audit Function

The Internal Auditors report 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 FY2019, the IAD and Outsourced Internal Auditors carried out audit assignments in accordance with the approved audit plan 2019 for the Group.

2) Both the IAD and Outsourced Internal Auditors have tabled their Audit Plan for 2020 to the AC for approval and the same has been recommended by the AC to the Board for notation.

3) The Internal 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 human resource audit, purchase of premium gift items, supplier's marketing claim, purchase of product on behalf of the reseller, procurement audit, supplier's reseller incentive, information technology audit, and resource allocation review presented by IAD; and

    - Baker Tilly presented their review report on Recurring Related Party Transaction, inventory management, human resource management, general security and safety management, project management, support services, and collection and credit control function.

Internal Audit Charter

The Internal Audit Charter ("**IAC**") should be regularly reviewed 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.

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 FY2019 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 FY2019 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 Ms. Pearly Lee Pei Sze, graduated with a Degree in Bachelor Degree (Honours) in Applied Accounting and 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) staff, depending on the auditable work scope, serving as the IA Engagement Team to the Company.

For FY2019, 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 FY2019

The total cost incurred for the internal audit function for FY2019 was RM193,099/-, segregated in the following manner:-

1) IAD – RM154,499/- (FY2018: RM175,544/-)

2) Baker Tilly – RM38,600/- (FY2018: RM36,000/-)

This Report of the AC is made in accordance with the Resolution of the Board of Directors passed on 13 May 2020.

OTHER INFORMATION

Required by the Main LR of Bursa Securities

In compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, 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 2019, 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	218,000	75,000
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	33,000	6,400
Total of Non-audit Fees	43,000	16,400

3. MATERIAL CONTRACTS AND CONTRACTS RELATING TO LOAN

Save as disclosed, 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 2019 or entered into since the end of the previous financial year:-

(a) The Company had on 18 April 2019, entered into a Share Sale Agreement and Shareholders' Agreement, both dated 18 April 2019 with Mr. Lim Fun Jin, Ms. Alice Yuen Mei Foong, Mr. Yong Keong Tuck and Mr. Tan Wai Ho (collectively referred to as the "**Vendors**") to acquire 150,000 ordinary shares in ISATEC Sdn. Bhd. (formerly known as I.S.A. Technologies Sdn. Bhd.) ("**ISATEC**"), representing 30% of the total issued share capital of ISATEC ("**Sale Shares**"), for a total purchase consideration of RM14,573,000/- ("**Acquisition**"). The Acquisition was completed on 10 May 2019. Subsequently, ISATEC becomes a 30%-owned associate company of the Company.

Subsequent to the completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Share Sale Agreement, the Company had on 18 April 2019, entered into a Shareholders' Agreement with the Vendors, Alvin Yuen Tai Keng and ISATEC.

The Company also had on 18 April 2019, entered into a Subscription Agreement dated 18 April 2019 with the Vendors to subscribe additional 83,334 ordinary shares in ISATEC, representing 10% of the total issued capital of ISATEC, for a total purchase consideration of RM4,223,000/- ("**Subscription**"). The Subscription was completed on 18 July 2019. Subsequently, ISATEC becomes a 40%-owned associate company of the Company.

4. DIRECTORS' TRAINING AND EDUCATION

The Directors attended numerous trainings during the financial year ended 31 December 2019 and the details of trainings are disclosed the Corporate Governance Overview Statement on page 50 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

Significant related party transactions of the Group for the financial year are disclosed in Note 29 to the Financial Statements.

6. SHARE ISSUANCE SCHEME FOR EMPLOYEES

The Group did not offer any share scheme for employees during the financial year ended 31 December 2019.

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 2019.

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 of Bursa Malaysia Securities Berhad.

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 2019:-

- 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 13 May 2020.

Financial
Statements

DIRECTORS' REPORT
For the Year Ended 31 December 2019

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 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are as stated in Note 7 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 7 to the financial statements.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to:		
Owners of the Company	29,594	9,970

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.

DIVIDEND

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

i) In respect of the financial year ended 31 December 2018:

- a single tier final dividend of 2.5 sen per ordinary share, totalling RM4,500,000 declared on 21 February 2019 and paid on 19 June 2019.

ii) In respect of the financial year ended 31 December 2019:

- a single tier interim dividend of 2.5 sen per ordinary share, totalling RM4,477,000 declared on 7 November 2019 and paid on 18 December 2019.

The second single tier interim dividend declared by the Directors in respect of the financial year ended 31 December 2019 is a single tier dividend of 3.0 sen per ordinary share.

DIRECTORS' REPORT
For the Year Ended 31 December 2019
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
Wong Heng Chong
Ahmad Subri bin Abdullah
Ho Chee Kit
Ong Wei Hiam
Chow Ying Chi
Tay Eng Hoe (Resigned on 1 June 2019)
Dato' Khoo Sin Aik (Appointed on 1 January 2020)
Abdul Aziz bin Zainal Abidin (Appointed on 1 January 2020)

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 1.1.2019	**Bought**	**Sold**	**At 31.12.2019**
Foo Sen Chin				
Own interest in the Company				
- direct	**99,000**	-	-	**99,000**
- indirect	**21,997,200**	-	-	**21,997,200**
Soong Jan Hsung				
Own interest in the Company				
- direct	**225,000**	-	-	**225,000**
Wong Heng Chong				
Own interest in the Company				
- direct	**225,000**	-	-	**225,000**

None of the other Directors holding office at 31 December 2019 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 2019
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 23 and Note 29 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.

SHARE BUY-BACK

The details of share buy-back are disclosed in Note 14 to the financial statements.

INDEMNITY AND INSURANCE COSTS

During the financial year, the Company maintained a Directors and Officers' Liability Insurance for the purpose of Section 289 of the Companies Act 2016. The total insured limit for the Directors and Officers' Liability Insurance was RM2,000,000 per occurrence and in the aggregate. The insurance premium for the Company is RM7,800 a year.

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 2019
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 2019 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.

SUBSEQUENT EVENT

The subsequent event is disclosed in Note 32 to the financial statements.

AUDITORS

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

The auditors' remuneration is disclosed in Note 20 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: 13 May 2020

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Assets					
Plant and equipment	3	**2,222**	2,418	**580**	648
Right-of-use assets	4	**2,057**	-	**-**	-
Investment properties	5	**9,388**	9,416	**-**	-
Intangible asset	6	**571**	571	**-**	-
Investments in subsidiaries	7	**-**	-	**77,022**	77,022
Investment in an associate	8	**21,226**	-	**18,796**	-
Investment in a joint venture	9	**13,876**	13,410	**12,170**	12,170
Investment in club membership		**62**	62	**-**	-
Deferred tax assets	15	**1,137**	1,249	**12**	-
Receivables and deposits	11	**2,743**	-	**-**	-
Total non-current assets		**53,282**	27,126	**108,580**	89,840
Inventories	10	**131,625**	132,748	**-**	-
Receivables and deposits	11	**291,582**	263,791	**9,750**	25,685
Prepayments		**411**	333	**123**	98
Cash and cash equivalents	12	**71,015**	54,541	**250**	3,138
Total current assets		**494,633**	451,413	**10,123**	28,921
Total assets		**547,915**	478,539	**118,703**	118,761
Equity					
Share capital	13	**90,000**	90,000	**90,000**	90,000
Reserves	14	**217,782**	198,096	**27,812**	27,750
Total equity attributable to owners of the Company		**307,782**	288,096	**117,812**	117,750
Liabilities					
Lease liabilities		**176**	-	**-**	-
Deferred tax liabilities	15	**-**	-	**-**	29
Total non-current liabilities		**176**	-	**-**	29
Lease liabilities		**1,937**	-	**-**	-
Payables and accruals	16	**230,991**	186,367	**745**	846
Contract liabilities	17	**2,154**	1,906	**-**	-
Derivative financial liabilities	18	**2,274**	839	**-**	-
Tax payable		**2,601**	1,331	**146**	136
Total current liabilities		**239,957**	190,443	**891**	982
Total liabilities		**240,133**	190,443	**891**	1,011
Total equity and liabilities		**547,915**	478,539	**118,703**	118,761

The notes on pages 91 to 143 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2019

	Note	Group		Company	
		2019	**2018**	**2019**	**2018**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	19	**1,802,284**	1,632,323	**12,915**	11,102
Cost of sales		**(1,709,110)**	(1,545,538)	**-**	-
Gross profit		**93,174**	86,785	**12,915**	11,102
Other income/(expense)		**2,205**	(135)	**-**	-
Distribution expenses		**(37,618)**	(35,019)	**-**	-
Administrative expenses		**(21,787)**	(20,795)	**(3,249)**	(3,105)
Net gain/(loss) on impairment of financial instruments		**104**	(664)	**-**	-
Results from operating activities	20	**36,078**	30,172	**9,666**	7,997
Finance income	21	**608**	1,928	**787**	1,325
Finance costs	22	**(526)**	(1)	**-**	-
Net finance income		**82**	1,927	**787**	1,325
Share of profit of equity accounted associate, net of tax		**2,430**	-	**-**	-
Share of profit of equity accounted joint venture, net of tax		**716**	676	**-**	-
Profit before tax		**39,306**	32,775	**10,453**	9,322
Tax expense	24	**(9,712)**	(8,171)	**(483)**	(465)
Profit for the year/Total comprehensive income for the year attributable to owners of the Company		**29,594**	24,604	**9,970**	8,857
Earnings per share attributable to owners of the Company:					
Basic (sen)	25	**16.5**	13.7		

The notes on pages 91 to 143 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
For the Year Ended 31 December 2019

	Note	Share capital	Treasury shares	Merger reserve	Retained earnings	Total equity
		← Attributable to owners of the Company →				
			← Non-distributable →		Distributable	
		RM'000	RM'000	RM'000	RM'000	RM'000
Group						
At 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	26	-	-	-	(9,000)	(9,000)
At 31 December 2018/ 1 January 2019		90,000	-	-	198,096	288,096
Profit for the year/Total comprehensive income for the year		-	-	-	29,594	29,594
Own shares acquired	14	-	(931)	-	-	(931)
Dividends to owners of the Company	26	-	-	-	(8,977)	(8,977)
At 31 December 2019		**90,000**	**(931)**	**-**	**218,713**	**307,782**
		Note 13	Note 14.3			
Company						
At 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	26	-	-	-	(9,000)	(9,000)
At 31 December 2018/ 1 January 2019		90,000	-	22,961	4,789	117,750
Profit for the year/Total comprehensive income for the year		-	-	-	9,970	9,970
Own shares acquired	14	-	(931)	-	-	(931)
Dividends to owners of the Company	26	-	-	-	(8,977)	(8,977)
At 31 December 2019		**90,000**	**(931)**	**22,961**	**5,782**	**117,812**
		Note 13	Note 14.3	Note 14.1		

The notes on pages 91 to 143 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2019

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities					
Profit before tax		**39,306**	32,775	**10,453**	9,322
Adjustments for:					
Depreciation of plant and equipment		**1,231**	1,276	**363**	423
Depreciation of investment properties		**28**	24	**-**	-
Depreciation of right-of-use assets		**1,962**	-	**-**	-
Gain on disposal of plant and equipment		**(116)**	(43)	**-**	-
Gain on foreign exchange					
- Unrealised		**(1,927)**	1,793	**-**	-
Finance costs		**526**	1	**-**	-
Finance income		**(608)**	(1,928)	**(787)**	(1,325)
Dividend income from subsidiaries		**-**	-	**(10,300)**	(9,100)
Dividend income from a joint venture		**-**	-	**(250)**	(100)
Plant and equipment written off		**8**	1	**-**	-
Fair value changes on financial instruments		**1,435**	(1,259)	**-**	-
Share of profit of equity-accounted associate, net of tax		**(2,430)**	-	**-**	-
Share of profit of equity-accounted joint venture, net of tax		**(716)**	(676)	**-**	-
Operating profit/(loss) before changes in working capital		**38,699**	31,964	**(521)**	(780)
Changes in working capital:					
Inventories		**1,123**	(9,768)	**-**	-
Receivables, deposits and prepayments		**(30,867)**	10,639	**81**	80
Payables and accruals		**46,551**	(6,154)	**(101)**	48
Contract liabilities		**248**	(998)	**-**	-
Cash generated from/(used in) operations		**55,754**	25,683	**(541)**	(652)
Tax paid		**(8,330)**	(8,384)	**(514)**	(519)
Net cash generated from/(used in) operating activities		**47,424**	17,299	**(1,055)**	(1,171)
Cash flows from investing activities					
Acquisition of associate company		**(18,796)**	-	**(18,796)**	-
Acquisition of investment properties		**-**	(5,263)	**-**	-
Acquisition of plant and equipment		**(1,043)**	(880)	**(295)**	(139)
Proceeds from disposal of plant and equipment		**116**	47	**-**	-
Dividend income from subsidiaries		**-**	-	**10,300**	9,100
Dividend income from a joint venture		**250**	100	**250**	100
Net cash (used in)/generated from investing activities		**(19,473)**	(5,996)	**(8,541)**	9,061

STATEMENTS OF CASH FLOWS
For the Year Ended 31 December 2019
cont'd

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash flows from financing activities					
Repayment from subsidiaries		**-**	-	**16,600**	2,264
Interest paid		**(247)**	(1)	**-**	-
Interest received		**584**	1,713	**16**	1,325
Dividends paid to owners of the Company		**(8,977)**	(9,000)	**(8,977)**	(9,000)
Payment of lease liabilities		**(1,906)**	-	**-**	-
Repurchase of treasury shares		**(931)**	-	**(931)**	-
Net cash (used in)/generated from financing activities		**(11,477)**	(7,288)	**6,708**	(5,411)
Net increase/(decrease) in cash and cash equivalents		**16,474**	4,015	**(2,888)**	2,479
Cash and cash equivalents at 1 January		**54,541**	50,526	**3,138**	659
Cash and cash equivalents at 31 December	(i)	**71,015**	54,541	**250**	3,138

(i) 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 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Cash and bank balances	12	**70,412**	53,953	**250**	3,138
Liquid investments	12	**603**	588	**-**	-
		71,015	54,541	**250**	3,138

(ii) Cash outflows for leases as a lessee

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Included in net cash from operating activities:					
Interest paid in relation to lease liabilities	22	**220**	-	**-**	-
Included in net cash from financing activities:					
Payment of lease liabilities		**1,906**	-	**-**	-
Total cash outflows for leases		**2,126**	-	**-**	-

STATEMENTS OF CASH FLOWS

For the Year Ended 31 December 2019
cont'd

(iii) Reconciliation of movements of liabilities to cash flows arising from financing activities

	At 1 January 2019 RM'000	Net changes from financing cash flows RM'000	Acquisition of new lease RM'000	At 31 December 2019 RM'000
Group				
Lease liabilities	3,957	(1,906)	62	**2,113**

The notes on pages 91 to 143 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

VSTECS 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 2019 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 an associate and a joint venture. The financial statements of the Company as at and for the financial year ended 31 December 2019 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 7 to the financial statements.

These financial statements were authorised for issue by the Board of Directors on 13 May 2020.

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 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*
- Amendments to MFRS 9, *Financial Instruments,* MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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 1 January 2022

- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*

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*

NOTES TO THE FINANCIAL STATEMENTS
cont'd

1. BASIS OF PREPARATION *cont'd*

(a) Statement of compliance *cont'd*

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

- from the annual period beginning on 1 January 2020 for those accounting standards, interpretations and amendments, that are effective for annual periods beginning on or after 1 January 2020.
- from the annual period beginning on 1 January 2022 for the amendment that is effective for annual periods beginning on or after 1 January 2022.

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 periods and prior period financial statements of the Group and of the Company.

(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 the following notes:

- Note 4.2 - extension options and incremental borrowing rate in relation to leases
- Note 6 - impairment testing for cash-generating units containing goodwill
- Note 30.4 - measurement of expected credit loss ("ECL").

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 16, Leases, there are changes to the accounting policies applied to lease contracts entered into by the Group entities as compared to those applied in previous financial statements. The impact arising from the changes are disclosed in Note 33.

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) Associates

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

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidation financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date the significant influence commences until the date that significant influence ceases.

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(a) Basis of consolidation *cont'd*

(iii) Associates *cont'd*

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

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

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses. The cost of investment includes transaction costs.

(iv) 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.

- 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.

(v) 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.

(vi) 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(a) Basis of consolidation *cont'd*

(vii) Transactions eliminated on consolidation

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

Unrealised gains arising from transactions with 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.

(c) Financial instruments

(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.

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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

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.

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*

(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.

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 reduces 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)).

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(c) Financial instruments *cont'd*

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

Financial liabilities

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.

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.

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.

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.

(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 transferred, 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. **SIGNIFICANT ACCOUNTING POLICIES** *cont'd*

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(e) Leases

The Group has applied MFRS 16 using the modified retrospective approach, under which leases were measured at the present value of the remaining lease payments with no adjustment to retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, *Leases and related interpretations*.

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone price. However, for leases of properties in which the Group is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

(a) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of cots to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group entities use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivables;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(e) Leases *cont'd*

(ii) Recognition and initial measurement *cont'd*

(a) As a lessee *cont'd*

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

If an arrangement contains lease and non-lease components, the Group applies MFRS 15 to allocate the consideration in the contract based on the stand-alone selling prices.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

(iii) Subsequent measurement

(a) As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) As a lessor

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "revenue".

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(e) Leases *cont'd*

Previous financial year

Operating lease

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

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

Leasehold land which in substance was an operating lease was 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 associate and 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 associate and 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 are finance leases 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.

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 is disclosed in Note 5.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(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 the Group entities 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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(k) Impairment *cont'd*

(i) Financial assets *cont'd*

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of 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.

(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) Repurchase, disposal and reissue of share capital (treasury shares)

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

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

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(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.

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 segment 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

2. SIGNIFICANT ACCOUNTING POLICIES *cont'd*

(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 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/ 1 January 2019	11,809	460	2,123	2,592	16,984
Additions	490	10	427	116	1,043
Disposals	(43)	-	(421)	-	(464)
Written off	(118)	-	-	(8)	(126)
At 31 December 2019	**12,138**	**470**	**2,129**	**2,700**	**17,437**
Accumulated depreciation					
At 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/ 1 January 2019	10,325	295	1,646	2,300	14,566
Depreciation for the year	754	41	222	214	1,231
Disposals	(43)	-	(421)	-	(464)
Written off	(110)	-	-	(8)	(118)
At 31 December 2019	**10,926**	**336**	**1,447**	**2,506**	**15,215**
Carrying amounts					
At 1 January 2018	1,876	189	286	468	2,819
At 31 December 2018/ 1 January 2019	1,484	165	477	292	2,418
At 31 December 2019	**1,212**	**134**	**682**	**194**	**2,222**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

3. PLANT AND EQUIPMENT *cont'd*

	Office equipment RM'000
Company	
Cost	
At 1 January 2018	2,250
Additions	139
At 31 December 2018/1 January 2019	2,389
Additions	295
Written off	(21)
At 31 December 2019	**2,663**
Accumulated depreciation	
At 1 January 2018	1,318
Depreciation for the year	423
At 31 December 2018/1 January 2019	1,741
Depreciation for the year	363
Written off	(21)
At 31 December 2019	**2,083**
Carrying amounts	
At 1 January 2018	932
At 31 December 2018/1 January 2019	648
At 31 December 2019	**580**

4. RIGHT-OF-USE ASSETS

	Building RM'000	Total RM'000
Group		
At 1 January 2019	3,957	3,957
Addition	62	62
Depreciation	(1,962)	(1,962)
At 31 December 2019	**2,057**	**2,057**

The Group leases a number of warehouse and office buildings that run between 1 year to 3 years, with an option to renew the lease after that date.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

4. RIGHT-OF-USE ASSETS *cont'd*

4.1 Extension options

Some leases of office buildings contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

	Lease liabilities recognised (discounted)	Potential future lease payments not included in lease liabilities (discounted)	Historical rate of exercise of extension options
	RM'000	RM'000	%
Buildings	154	-	100

4.2 Significant judgements and assumptions in relation to leases

The Group assess at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. The Group consider all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. The Group first determine the closest available borrowing rates before using significant judgement to determine the adjustment required to reflect the term, security, value or economic environment of the respective leases.

5. INVESTMENT PROPERTIES

	Freehold lands	Buildings	Total
	RM'000	RM'000	RM'000
Group			
Cost			
At 1 January 2018	-	-	-
Additions	8,260	1,180	9,440
At 31 December 2018/1 January 2019	8,260	1,180	9,440
Additions	-	-	-
At 31 December 2019	**8,260**	**1,180**	**9,440**
Accumulated depreciation			
At 1 January 2018	-	-	-
Charge for the year	-	24	24
At 31 December 2018/1 January 2019	-	24	24
Charge for the year	-	28	28
At 31 December 2019	**-**	**52**	**52**

NOTES TO THE FINANCIAL STATEMENTS
cont'd

5. INVESTMENT PROPERTIES *cont'd*

	Freehold lands RM'000	Buildings RM'000	Total RM'000
Group *(cont'd)*			
Carrying amounts			
At 31 December 2018/1 January 2019	8,260	1,156	9,416
A 31 December 2019	**8,260**	**1,128**	**9,388**
Fair value			
At 31 December 2019/2018	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 18 November 2019 for all investment properties using the open market value method, and an assessment of the prevailing property market rate.

6. INTANGIBLE ASSET

Goodwill

	Note	Group 2019 RM'000	Group 2018 RM'000
At cost	6.1	**571**	571

6.1 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's 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 6% (2018: 10%), 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% (2018: 5.5%).

NOTES TO THE FINANCIAL STATEMENTS
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7. INVESTMENTS IN SUBSIDIARIES

	Company 2019 RM'000	Company 2018 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 2019 %	Effective ownership interest and voting interest 2018 %
VSTECS 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.	Malaysia		**100**	100
VSTECS KU Sdn. Bhd.	Malaysia		**100**	100
VSTECS Kush Sdn. Bhd.	Malaysia	Provision of management services and letting of properties.	**100**	100

8. INVESTMENT IN AN ASSOCIATE

On 18 April 2019, the Company entered into a Share Sale Agreement and a Subscription Agreement ("Agreements") with external parties to acquire ordinary shares in ISATEC Sdn. Bhd. (formerly known as I.S.A. Technologies Sdn. Bhd.) ("ISATEC"), representing 30% and 10% respectively of the total issued share capital of ISATEC, for a purchase consideration of RM14,573,000 and RM4,223,000 respectively.

With the completion of the Agreements on 10 May and 18 July 2019, ISATEC became a 40% owned associate company. ISATEC is not audited by member firms of KPMG International.

	Group 2019 RM'000	Company 2019 RM'000
At cost		
Unquoted shares	**18,796**	18,796
Share of post-acquisition reserves	**2,430**	-
	21,226	18,796

NOTES TO THE FINANCIAL STATEMENTS
cont'd

8. INVESTMENT IN AN ASSOCIATE *cont'd*

Details of the associate is as follows:

Name of entity	Principal place of business	Nature of the relationship	Effective ownership interest and voting interest 2019 %
ISATEC Sdn. Bhd. (Formerly known as I.S.A. Technology Sdn. Bhd.)	Malaysia	Provider of products and contract programming services related to information technology and telecommunication facilities.	40

The following table summarises the information of the Group's associate, adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

2019 Group	RM'000
Summarised financial information	
As at 31 December	
Non-current assets	1,343
Current assets	30,685
Non-current liabilities	(18)
Current liabilities	(11,947)
Net assets	20,063
Year ended 31 December	
Profit and total comprehensive income	5,788
Included in the total comprehensive income is:	
Revenue	36,426
Reconciliation of net assets to carrying amount as at 31 December	
Group's share of net assets	8,025
Goodwill	13,201
Carrying amount in the statement of financial position	21,226
Group's share of results for the period ended 31 December	
Group's share of profit and total comprehensive income	2,430

9. 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.

NOTES TO THE FINANCIAL STATEMENTS
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9. INVESTMENT IN A JOINT VENTURE *cont'd*

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At cost				
Unquoted shares	**12,170**	12,170	**12,170**	12,170
Share of post-acquisition reserves	**1,706**	1,240	**-**	-
	13,876	13,410	**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	
	2019	2018
	RM'000	RM'000
Percentage of ownership interest	**50%**	50%
Percentage of voting interest	**50%**	50%
Summarised financial information		
As at 31 December		
Non-current assets	**29,047**	29,000
Current assets	**643**	229
Non-current liabilities	**(860)**	(860)
Current liabilities	**(1,078)**	(1,549)
Net Assets	**27,752**	26,820
Year ended 31 December		
Profit for the year and total comprehensive income	**1,432**	1,353
Included in the total comprehensive income are:		
Revenue	**1,974**	1,974
Interest expense	**(15)**	(59)
Income tax expense	**(408)**	(406)
Reconciliation of net assets to carrying amount as at 31 December		
Group's share of net assets	**13,876**	13,410
Group's share of results for the year ended 31 December	**716**	676
Dividend received by the Group	**250**	100

NOTES TO THE FINANCIAL STATEMENTS
cont'd

10. INVENTORIES

	Group	
	2019	2018
	RM'000	RM'000
Finished goods	**125,185**	129,441
Goods-in-transit	**6,440**	3,307
	131,625	132,748
Recognised in profit or loss:		
Inventories recognised as cost of sales	**1,733,742**	1,570,367
Write-down to net realisable value	**1,342**	442

The write-down is included in cost of sales.

11. RECEIVABLES AND DEPOSITS

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Trade					
Non-current					
Receivable	11.1	**2,743**	-	**-**	-
Current					
Receivables		**281,380**	251,838	**-**	-
Less: Impairment loss	11.2	**(534)**	(682)	**-**	-
		280,846	251,156	**-**	-
Amount due from subsidiaries	11.3	**-**	-	**614**	868
		280,846	251,156	**614**	868
Non-trade					
Other receivables	11.4	**8,925**	11,333	**72**	4
Deposits	11.5	**1,811**	1,302	**213**	5
Amounts due from subsidiaries	11.6	**-**	-	**8,851**	24,808
		10,736	12,635	**9,136**	24,817
		294,325	263,791	**9,750**	25,685

11.1 Non-current trade receivable

The amount owing by non-current trade receivable is unsecured, interest free and repayable in October 2021.

11.2 Impairment loss

During the financial year, trade receivables amounting to RM45,000 (2018: RM323,000) was written off against the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

11. RECEIVABLES AND DEPOSITS *cont'd*

11.3 Amount due from subsidiaries (Trade)

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

11.4 Other receivables (Non-trade)

Included in other receivables of the Group is advertisement and promotion expenses incurred on behalf and receivable from respective vendors ("marketing claims") amounting to RM6,424,000 (2018: RM6,817,000).

11.5 Deposits

Included in deposits of the Group is an amount of RM960,000 (2018: RM960,000) paid as rental security deposits to the joint venture.

11.6 Amount due from subsidiaries (Non-trade)

Included in the amount due from subsidiaries is a non-trade short-term loan of RM8,000,000 (2018: RM24,600,000) which is unsecured, bears interest at 5.5% (2018: 5.5%) per annum and repayable on demand.

12. CASH AND CASH EQUIVALENTS

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Cash and bank balances		**70,412**	53,953	**250**	3,138
Liquid investment	12.1	**603**	588	**-**	-
		71,015	54,541	**250**	3,138

12.1 Liquid investment

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

13. SHARE CAPITAL

	Group and Company			
	Amount	Number of shares	Amount	Number of shares
	2019	2019	2018	2018
	RM'000	'000	RM'000	'000
Issued and fully paid with no par value:				
Ordinary shares	**90,000**	**180,000**	90,000	180,000

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

14. RESERVES

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Merger reserves	14.1	**-**	-	**22,961**	22,961
Retained earnings	14.2	**218,713**	198,096	**5,782**	4,789
Treasury shares	14.3	**(931)**	-	**(931)**	-
		217,782	198,096	**27,812**	27,750

14.1 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.

14.2 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.

14.3 Treasury shares

Treasury shares comprises cost of acquisition of the Company's own shares. At 31 December 2019, the Company held 909,600 (2018: Nil) of the Company's own shares.

15. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
Plant and equipment	-	-	(113)	(136)	(113)	(136)
Right-of-use assets	518	-	-	-	518	-
Lease liabilities	-	-	(505)	-	(505)	-
Provisions	1,355	1,230	-	-	1,355	1,230
Other items	-	155	(118)	-	(118)	155
Tax assets/(liabilities)	1,873	1,385	(736)	(136)	1,137	1,249
Set off of tax	(736)	(136)	736	136	-	-
Net tax assets	1,137	1,249	-	-	1,137	1,249
Company						
Plant and equipment	-	-	(16)	(51)	(16)	(51)
Provisions	28	22	-	-	28	22
Tax assets/(liabilities)	28	22	(16)	(51)	12	(29)
Set off of tax	(16)	(22)	16	22	-	-
Net tax liabilities	12	-	-	(29)	12	(29)

Movement in temporary differences during the year

	At 1.1.2018	Recognised in profit or loss (Note 24)	At 31.12.2018/ 1.1.2019	Recognised in profit or loss (Note 24)	At 31.12.2019
	RM'000	RM'000	RM'000	RM'000	RM'000
Group					
Plant and equipment	(200)	64	(136)	23	(113)
Right-of-use assets	-	-	-	518	518
Lease liabilities	-	-	-	(505)	(505)
Provisions	1,150	80	1,230	125	1,355
Other items	(142)	297	155	(273)	(118)
	808	441	1,249	(112)	1,137
Company					
Plant and equipment	(118)	67	(51)	35	(16)
Provisions	23	(1)	22	6	28
	(95)	66	(29)	41	12

NOTES TO THE FINANCIAL STATEMENTS
cont'd

16. PAYABLES AND ACCRUALS

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Trade					
Trade payables		**189,761**	143,799	**-**	-
Deferred revenue		**105**	114	**-**	-
		189,866	143,913	**-**	-
Non-trade					
Other payables and accrued expenses	16.1	**41,125**	42,454	**727**	812
Amount due to subsidiaries	16.2	**-**	-	**18**	34
		41,125	42,454	**745**	846
		230,991	186,367	**745**	846

16.1 Other payables and accrued expenses

Included in other payables and accrued expenses of the Group is accrual for advertisement and promotion amounting to RM15,891,000 (2018: RM17,762,000).

16.2 Amount due to subsidiaries (Non-trade)

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

17. CONTRACT WITH CUSTOMERS

Contract liabilities

	2019 RM'000	2018 RM'000
Group		
Contract liabilities	**2,154**	1,906

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

18. DERIVATIVE FINANCIAL LIABILITIES

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

	2019			2018		
	Nominal value RM'000	Assets RM'000	Liabilities RM'000	Nominal value RM'000	Assets RM'000	Liabilities RM'000
Group						
Forward exchange contracts	**118,523**	**-**	**2,274**	79,646	-	839

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.

19. REVENUE

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue from contracts with customers					
Sale of goods		**1,801,721**	1,630,769	**-**	-
Services		**563**	1,554	**1,525**	1,235
	19.1	**1,802,284**	1,632,323	**1,525**	1,235
Other revenue					
Rental income from:					
- subsidiaries		**-**	-	**840**	667
Dividend income from:					
- subsidiaries		**-**	-	**10,300**	9,100
- joint venture		**-**	-	**250**	100
Total revenue		**1,802,284**	1,632,323	**12,915**	11,102

19.1 Nature of goods and services

The following information reflects the typical transactions of the Group and of the Company:

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

20. RESULTS FROM OPERATING ACTIVITIES

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Results from operating activities are arrived at after charging:					
Auditors' remuneration					
- Audit fees					
KPMG PLT		**218**	211	**75**	71
- Non-audit fees					
KPMG PLT		**10**	20	**10**	20
- Local affiliates of KPMG PLT		**33**	32	**6**	6
Material expenses/(income)					
Dividend income from joint venture		**-**	-	**(250)**	(100)
Dividend income from subsidiaries (unquoted)		**-**	-	**(10,300)**	(9,100)
Fair value loss/(gain) on financial instruments		**1,435**	(1,259)	**-**	-
Gain on disposal of plant and equipment		**(116)**	(43)	**-**	-
(Gain)/Loss on foreign exchange (net):					
- Realised		**(1,590)**	(329)	**-**	-
- Unrealised		**(1,927)**	1,793	**-**	-
Rental income		**-**	-	**841**	667
Depreciation of plant and equipment		**1,231**	1,276	**363**	423
Depreciation of investment properties		**28**	24	**-**	-
Depreciation of right-of-use assets		**1,962**	-	**-**	-
Inventories written down		**1,342**	442	**-**	-
Plant and equipment written off		**8**	1	**-**	-
Personnel expenses (including key management personnel):					
- Contributions to state plans		**3,100**	3,017	**103**	100
- Wages, salaries and others		**35,135**	33,137	**961**	921
Expenses arising from leases					
Expenses relating to short-term leases	a	**6**	-	**-**	-
Rental expense:					
- Warehouse rental		**-**	651	**-**	-
Net (gain)/loss on impairment of financial instruments					
Financial assets at amortised cost		**(104)**	664	**-**	-

Note a

The Group leases office building with contract terms less than a year. This lease is short-term. The Group has elected not to recognise right-of-use assets and lease liabilities for this lease.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

21. FINANCE INCOME

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest income of financial assets at fair value through profit or loss	23	215	-	-
Interest income of financial assets that are not at fair value through profit or loss:				
- Recognised before impairment	585	1,713	787	1,325
	608	1,928	787	1,325

22. FINANCE COSTS

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest expense of financial assets at fair value through profit or loss	279	-	-	-
Interest expense of financial liabilities that are not at fair value through profit or loss:				
- Overdraft	26	1	-	-
Interest expense on lease liabilities	221	-	-	-
	526	1	-	-

NOTES TO THE FINANCIAL STATEMENTS
cont'd

23. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation are as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors				
- Fees	**429**	457	**417**	445
- Remuneration	**3,490**	3,482	**30**	33
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	**76**	82	**-**	-
	3,995	4,021	**447**	478
Other key management personnel				
- Remuneration	**1,440**	1,413	**265**	260
- Contributions to state plans	**225**	216	**38**	37
- Other short-term employee benefits	**514**	475	**59**	63
	2,179	2,104	**362**	360
	6,174	6,125	**809**	838

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.

24. TAX EXPENSE

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax expense				
- Current year	**9,780**	8,775	**532**	524
- (Over)/Under provision in prior year	**(180)**	(163)	**(8)**	7
	9,600	8,612	**524**	531
Deferred tax expense				
- Origination and reversal of temporary differences	**(19)**	(234)	**(49)**	(56)
- Under/(Over) provision in prior year	**131**	(207)	**8**	(10)
	112	(441)	**(41)**	(66)
	9,712	8,171	**483**	465

NOTES TO THE FINANCIAL STATEMENTS
cont'd

24. TAX EXPENSE *cont'd*

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Reconciliation of tax expense				
Profit for the year	**29,594**	24,604	**9,970**	8,857
Tax expense	**9,712**	8,171	**483**	465
Profit excluding tax	**39,306**	32,775	**10,453**	9,322
Tax at Malaysian tax rate of 24% (2018: 24%)	**9,433**	7,866	**2,509**	2,237
Non-deductible expenses	**1,089**	935	**506**	465
Non-taxable income	**(8)**	(98)	**(2,532)**	(2,234)
Tax effect on share of results of associate	**(582)**	-	**-**	-
Tax effect on share of results of joint venture	**(171)**	(162)	**-**	-
	9,761	8,541	**483**	468
(Over)/Under provision of tax expense in prior year	**(180)**	(163)	**(8)**	7
Under/(Over) provision of deferred tax expense in prior year	**131**	(207)	**8**	(10)
	9,712	8,171	**483**	465

25. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per ordinary share ("EPS") at 31 December 2019 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

	Group	
	2019	2018
	RM'000	RM'000
Profit attributable to owners of the Company	**29,594**	24,604
	'000	'000
Weighted average number of ordinary shares at 31 December	**179,573**	180,000
Basic earnings per ordinary share (sen)	**16.5**	13.7

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

NOTES TO THE FINANCIAL STATEMENTS
cont'd

26. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2019			
Final 2018 ordinary - single tier	**2.5**	**4,500**	19 June 2019
Interim 2019 ordinary - single tier	**2.5**	**4,477**	18 December 2019
Total		**8,977**	
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	

After the end of the reporting period, the following dividend was declared by the Directors. These dividends will be recognised in subsequent financial period.

	Sen per share	Total amount RM'000
Interim 2019 ordinary - single tier	3.0	5,373

27. 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 system integrators 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 2019 and 2018.

27. OPERATING SEGMENTS *cont'd*

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

27. OPERATING SEGMENTS *cont'd*

27.1 Segmental information for the Group is presented as follows:

	ICT distribution		Enterprise systems		ICT services		Total	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Segment profit	**16,274**	16,512	**17,347**	13,825	**2,046**	783	**35,667**	31,120
Included in the measure of segment profit are:								
- Depreciation of plant and equipment	**(178)**	(195)	**(144)**	(127)	**(29)**	(20)	**(351)**	(342)
- Depreciation of investment properties	**(22)**	(19)	**(5)**	(4)	**(1)**	(1)	**(28)**	(24)
- Finance costs	**(2,211)**	(1,657)	**(721)**	(333)	**(77)**	(23)	**(3,009)**	(2,013)
- Finance income	**166**	372	**2,094**	1,960	**209**	210	**2,469**	2,542
Segment assets	**341,772**	328,783	**192,028**	142,490	**7,739**	3,432	**541,539**	474,705
Revenue from external customers	**1,207,078**	1,137,373	**539,226**	455,092	**55,980**	39,858	**1,802,284**	1,632,323
Inter-segment revenue	**12,416**	16,161	**5,873**	1,316	**8,655**	5,280	**26,944**	22,757

27.2 Disaggregation of revenue

	ICT distribution		Enterprise systems		ICT services		Total	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Major product and service lines								
- Desktop, PC, Notebooks, mobility devices and peripherals	**1,207,078**	1,137,373	**-**	-	**-**	-	**1,207,078**	1,137,373
- Server, storage, software and networking products	**-**	-	**539,226**	455,092	**-**	-	**539,226**	455,092
- Services and maintenance	**-**	-	**-**	-	**55,980**	39,858	**55,980**	39,858
	1,207,078	1,137,373	**539,226**	455,092	**55,980**	39,858	**1,802,284**	1,632,323
Timing								
- At a point in time	**1,207,078**	1,137,373	**539,226**	455,092	**55,417**	38,304	**1,801,721**	1,630,769
- Over time	**-**	-	**-**	-	**563**	1,554	**563**	1,554
	1,207,078	1,137,373	**539,226**	455,092	**55,980**	39,858	**1,802,284**	1,632,323

NOTES TO THE FINANCIAL STATEMENTS
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27. OPERATING SEGMENTS *cont'd*

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

	Group	
	2019 RM'000	2018 RM'000
Total profit for the reportable segments	**35,667**	31,120
Other non-reportable segments profit	**11,058**	10,858
Elimination of inter-segments profit	**(7,419)**	(9,203)
Consolidated profit before tax	**39,306**	32,775

	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							
2019							
Total reportable segments	**1,829,228**	**(351)**	**(28)**	**(3,009)**	**2,469**	**541,539**	**539**
Other non-reportable segments	**16,852**	**(886)**	**-**	**(197)**	**819**	**129,578**	**520**
Elimination of inter-segment transactions or balances	**(43,796)**	**6**	**-**	**2,680**	**(2,680)**	**(123,202)**	**(16)**
Consolidated total	**1,802,284**	**(1,231)**	**(28)**	**(526)**	**608**	**547,915**	**1,043**
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

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
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28. CAPITAL COMMITMENTS

	Group 2019 RM'000	Group 2018 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	**703**	372

29. 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 23.

Other related party transactions

	Transaction value			
	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Affiliated company				
Purchases	**-**	(3,639)	**-**	-
Subsidiaries				
Dividend income	**-**	-	**10,300**	9,100
Interest income	**-**	-	**770**	1,119
Rental income	**-**	-	**841**	667
Support services income	**-**	-	**1,524**	1,235
Purchase of equipment	**-**	-	**(429)**	(212)
Support service expense	**-**	-	**(108)**	(150)

NOTES TO THE FINANCIAL STATEMENTS
cont'd

29. RELATED PARTIES *cont'd*

Other related party transactions *cont'd*

	Transaction value			
	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Joint venture				
Dividend income	-	-	250	100
Rental expense	(1,974)	(1,974)	-	-
Professional fee	10	10	-	-
Associate				
Sales	133	-	-	-
Transactions with a company in which a Director has common directorship				
Sales	437	94	-	-

The net balances outstanding arising from the above transactions have been disclosed in Note 11 and Note 16.

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.

30. FINANCIAL INSTRUMENTS

30.1 Categories of financial instruments

The table below provides an analysis of financial instruments 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	AC	Mandatorily at FVTPL	FVOCI - EIDUIR
	RM'000	RM'000	RM'000	RM'000
2019				
Financial assets				
Group				
Receivables and deposits	294,325	291,582	2,743	-
Cash and cash equivalents	71,015	71,015	-	-
Club membership	62	-	-	62
	365,402	362,597	2,743	62

NOTES TO THE FINANCIAL STATEMENTS
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30. FINANCIAL INSTRUMENTS *cont'd*

30.1 Categories of financial instruments *cont'd*

	Carrying amount RM'000	AC RM'000	Mandatorily at FVTPL RM'000	FVOCI - EIDUIR RM'000
2019 *cont'd*				
Financial assets *cont'd*				
Company *cont'd*				
Receivables and deposits	**9,750**	**9,750**	**-**	**-**
Cash and cash equivalents	**250**	**250**	**-**	**-**
	10,000	**10,000**	**-**	**-**
Financial liabilities				
Group				
Payables and accruals	**(230,991)**	**(230,991)**	**-**	**-**
Derivative financial liabilities	**(2,274)**	**-**	**(2,274)**	**-**
	(233,265)	**(230,991)**	**(2,274)**	**-**
Company				
Payables and accruals	**(745)**	**(745)**	**-**	**-**
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
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30. FINANCIAL INSTRUMENTS *cont'd*

30.2 Net gains and losses arising from financial instruments

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Net gains/(losses) on:				
Financial assets at amortised cost	**692**	1,281	**787**	1,325
Financial assets at fair value through profit or loss:				
- Mandatorily required under MFRS 9	**(256)**	-	**-**	-
Financial liabilities at amortised cost	**3,270**	(1,465)	**-**	-
Financial liabilities at fair value through profit and loss:				
- Mandatorily required under MFRS 9	**(1,435)**	1,259	**-**	-
	2,271	1,075	**787**	1,325

30.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

30.4 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

30. FINANCIAL INSTRUMENTS *cont'd*

30.4 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 29.0% (2018: 29.3%) 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 2019.

	2019		
	Gross carrying amount RM'000	**Loss allowance RM'000**	**Net balance RM'000**
Current (not past due)	151,926	-	151,926
1 – 30 days past due	95,210	-	95,210
31 – 60 days past due	29,775	-	29,775
61 – 90 days past due	5,076	-	5,076
	281,987	-	281,987
Credit impaired			
More than 90 days past due	2,049	(447)	1,603
Individually impaired	87	(87)	-
	284,123	(534)	283,590

30. FINANCIAL INSTRUMENTS *cont'd*

30.4 Credit risk *cont'd*

(i) Trade receivables *cont'd*

Recognition and measurement of impairment loss cont'd

	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

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

	Lifetime ECL RM'000	Credit Impaired RM'000	Total RM'000
Balance at 1 January 2018	213	385	598
Amounts written off	-	(323)	(323)
Net measurement of loss allowance	411	(4)	407
Balance at 31 December 2018/1 January 2019	624	58	682
Amounts written off	(265)	(46)	(311)
Net measurement of loss allowance	88	75	163
Balance at 31 December 2019	447	87	534

As at 31 December 2019, RM87,000 (2018: RM57,000) of trade receivables were written off but they are still subject to enforcement activity.

(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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

30. FINANCIAL INSTRUMENTS *cont'd*

30.4 Credit risk *cont'd*

(iii) Other receivables

Credit risks on other receivables are mainly arising from deposits paid for office buildings and fixtures rented, and marketing and promotional expenses incurred on behalf and receivable from respective vendors ("marketing claims"). These deposits and marketing claims will be received at the end of respective lease and credit terms. The Group manages the credit risk together according to the lease and vendor agreements.

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.

(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.

30. FINANCIAL INSTRUMENTS *cont'd*

30.4 Credit risk *cont'd*

(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
- 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.

30.5 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.

NOTES TO THE FINANCIAL STATEMENTS
cont'd

30. FINANCIAL INSTRUMENTS *cont'd*

30.5 Liquidity risk *cont'd*

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	Over 1 year RM'000
2019					
Group					
Non-derivative financial liabilities:					
Lease liabilities	2,113	5.5%	2,238	2,051	187
Payables and accruals	230,991	-	230,991	230,991	-
	233,104		233,229	233,042	187
Derivative financial liabilities:					
Forward exchange contracts (gross settled):					
Outflow	2,274	-	120,797	120,797	-
Inflow	-	-	(118,523)	(118,523)	-
	235,378		235,503	235,316	187
Company					
Non-derivative financial liabilities:					
Payables and accruals	745	-	745	745	-

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

30. FINANCIAL INSTRUMENTS *cont'd*

30.6 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.

30.6.1 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 32.0% (2018: 29.8%) 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.

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	
	2019	**2018**
	RM'000	**RM'000**
Cash and cash equivalents	**89**	97
Trade payables	**(119,097)**	(68,473)
Forward exchange contracts	**(2,274)**	(839)
Net exposure	**(121,282)**	(69,215)

Currency risk sensitivity analysis

A 10% (2018: 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 ignored any impact of forecasted sales and purchases.

	Profit or loss	
	2019	**2018**
Group	**RM'000**	**RM'000**
USD	**9,217**	5,260

A 10% (2018: 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.

NOTES TO THE FINANCIAL STATEMENTS
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30. FINANCIAL INSTRUMENTS *cont'd*

30.6 Market risk *cont'd*

30.6.2 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 were:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Fixed rate instruments				
Financial assets	**-**	-	**8,000**	24,600
Lease liabilities	**2,113**	-	**-**	-
Floating rate instruments				
Financial assets	**603**	588	**-**	-

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
2019			
Financial assets			
Amount due from subsidiaries	**5.5**	**8,000**	**8,000**
2018			
Financial assets			
Amount due from subsidiaries	5.5	24,600	24,600

30. FINANCIAL INSTRUMENTS *cont'd*

30.7 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.

	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		
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2019										
Financial assets										
Club membership	**-**	**-**	**-**	**-**	**-**	**-**	**62**	**62**	**62**	**62**
Financial liabilities										
Forward exchange contracts	**-**	**2,274**	**-**	**2,274**	**-**	**-**	**-**	**-**	**2,274**	**2,274**
2018										
Financial assets										
Club membership	-	-	-	-	-	-	62	62	62	62
Financial liabilities										
Forward exchange contracts	-	839	-	839	-	-	-	-	839	839

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.

30.7.1 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
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30. FINANCIAL INSTRUMENTS *cont'd*

30.7 Fair value information *cont'd*

30.7.1 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 (2018: 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.

31. 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 2019, the Group's strategy, which was unchanged from 2018, was to maintain the debt-to-equity ratio at the lower end range. The debt-to-equity ratios were as follows:

		Group	
	Note	**2019 RM'000**	**2018 RM'000**
Total borrowings		**-**	-
Lease liabilities		**2,113**	-
Less: Cash and cash equivalents	12	**(71,015)**	(54,541)
Net cash		**68,902**	54,541
Total equity		**307,782**	288,096
Debt-to-equity ratio		**N/A**	N/A

There was no change in the Group's approach to capital management during the financial year.

32. SUBSEQUENT EVENT

The current COVID-19 outbreak will have an impact on the global economy, including the Malaysia market where the Group and the Company operate. Purchasing powers of consumers and corporations will be affected due to uncertainty in the market. In addition, there may be disruptions in the supply chain, logistics and our business operations as well as possible slowdown in enterprise system projects deployment. As the COVID-19 outbreak situation is evolving, the Group and the Company are actively monitoring and managing our operations to minimise any potential impact.

NOTES TO THE FINANCIAL STATEMENTS
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33. SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

During the year, the Group adopted MFRS 16.

Definition of a lease

On transition to MFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, *Determining whether an Arrangement contains a Lease* were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

Where the Group is a lessee, the Group applied the requirements of MFRS 16 using modified retrospective approach under which leases were measured at the present value of the remaining lease payments with no adjustment to opening balance of retained earnings at 1 January 2019.

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of 1 January 2019. The weighted-average rate applied is 5.5%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedient when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance lease under MFRS 117, the carrying amounts of the right-of-use asset and the lease liability at 1 January 2019 are determined to be the same as the carrying amount of the leased asset and lease liability under MFRS 117 immediately before that date.

33.1 Impact on financial statements

Since the Group and the Company applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 January 2019, there are no adjustments made to the prior period presented.

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	RM'000
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	4,029
Discounted using the incremental borrowing rate at 1 January 2019	3,727
Recognition exemption for short-term leases	(6)
Extension option reasonably certain to be exercised	236
Lease liabilities recognised at 1 January 2019	3,957

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 85 to 143 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 2019 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

Soong Jan Hsung
Director

Petaling Jaya

Date: 13 May 2020

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 85 to 143 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 13 May 2020.

Chan Puay Chai

Before me:

Commissioner for Oaths
Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

To the Members of VSTECS Berhad
[Registration No. 199501021835 (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 2019 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 85 to 143.

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 2019, 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
[Registration No. 199501021835 (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 11 - Receivables and deposits of the financial statements)

The key audit matter

The Group has significant trade receivables balances which amount to 51.3% 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 2019, RM1.6 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
[Registration No. 199501021835 (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
[Registration No. 199501021835 (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 Company, including the disclosures, and whether the financial statements 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

Lee Yee Keng
Approval Number: 02880/04/2021 J
Chartered Accountant

Petaling Jaya

Date: 13 May 2020

ANALYSIS OF SHAREHOLDINGS
As at 30 April 2020

Total number of issued shares	:	180,000,000 ordinary shares
Voting rights	:	1 vote per ordinary share
Treasury shares as at 30 April 2020	:	1,499,300 ordinary shares
Adjusted capital (after netting treasury shares as at 30 April 2020)	:	178,500,700 ordinary shares

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shareholdings	%
1 – 99	42	1.36	1,282	0.00
100 – 1,000	386	12.52	269,367	0.15
1,001 – 10,000	1,832	59.42	9,600,351	5.38
10,001 – 100,000	742	24.07	22,171,450	12.42
100,001 – 8,925,034*	78	2.53	37,827,250	21.19
8,925,035 and above**	3	0.10	108,631,000	60.86
Total	**3,083**	**100.00**	**178,500,700**	**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.	VSTECS Holdings (Singapore) Limited	72,000,000	40.33
2.	Sengin Sdn. Bhd.	21,231,000	11.89
3.	Dasar Technologies Sdn. Bhd.	15,400,000	8.63
4.	CGS-CIMB Nominees (Asing) Sdn. Bhd. *Exempt An for CGS-CIMB Securities (Singapore) Pte. Ltd. (Retail Clients)*	5,425,950	3.04
5.	Oasis Hope Sdn. Bhd.	3,759,800	2.11
6.	Melco Holdings Inc.	3,000,000	1.68
7.	Federlite Holdings Sdn. Bhd.	1,947,000	1.09
8.	Ong Lei Im	1,186,000	0.66
9.	Public Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Chiew Chieng Siew (E-PDG)*	1,050,000	0.59
10.	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Gan Tee Jin*	900,000	0.50
11.	Chong Lian	800,000	0.45
12.	Pui Cheng Tiong	745,100	0.42
13.	Chong Chiew Tshung	642,000	0.36
14.	RHB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Chiew Chieng Siew*	624,600	0.35
15.	CGS-CIMB Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Chiew Chieng Siew (MK0111)*	596,500	0.33

ANALYSIS OF SHAREHOLDINGS
As at 30 April 2020
cont'd

THIRTY (30) LARGEST SHAREHOLDERS *cont'd*

	Name of Shareholders	No. of Shareholdings	%
16.	Chan Geok Eng	585,000	0.33
17.	Tang Chin Hong	550,000	0.31
18.	Tan Tiang Choon	520,000	0.29
19.	Migan Sdn Bhd	510,750	0.29
20.	Lim Too Hock	500,000	0.28
21.	CIMSEC Nominees (Tempatan) Sdn. Bhd. *CIMB for Sengin Sdn. Bhd. (PB)*	459,000	0.26
22.	Yoong Qian Hui	450,000	0.25
23.	Maybank Nominees (Tempatan) Sdn. Bhd. *Jincan Sdn. Bhd.*	400,500	0.22
24.	Gan Kho @ Gan Hong Leong	392,400	0.22
25.	Public Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Chong Khong Shoong (E-IMO/JSI)*	390,000	0.22
26.	CIMB Group Nominees (Asing) Sdn. Bhd. *Exempt An for DBS Bank Ltd (SFS)*	371,000	0.21
27.	CGS-CIMB Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Leang Siew Yeen (MY1662)*	370,000	0.21
28.	Public Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Kejutaan Holdings Sdn. Bhd. (E-IMO)*	350,000	0.20
29.	Kong Chew Fa	347,100	0.19
30.	Lim Yin Sew	321,500	0.18
		135,825,200	**76.09**

SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2020

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**%**	**No. of Shares**	**%**
VSTECS Holdings (Singapore) Limited	76,971,450	43.12	-	-
VSTECS Holdings Limited	-	-	76,971,450 (1)	43.12
Sengin Sdn. Bhd.	21,690,000	12.15	-	-
Foo Sen Chin	99,000	0.06	21,997,200 (2)	12.32
Lee Marn Fong	-	-	22,096,200 (3)	12.38
Dasar Technologies Sdn. Bhd.	15,400,000	8.63	-	-

ANALYSIS OF SHAREHOLDINGS
As at 30 April 2020
cont'd

DIRECTORS' SHAREHOLDINGS AS AT 30 APRIL 2020

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**%**	**No. of Shares**	**%**
Foo Sen Chin	99,000	0.06	21,997,200 (2)	12.32
Soong Jan Hsung	225,000	0.13	-	-
Wong Heng Chong	225,000	0.13	-	-
Ahmad Subri Bin Abdullah	-	-	-	-
Ho Chee Kit	-	-	-	-
Dato' Khoo Sin Aik	-	-	-	-
Abdul Aziz Bin Zainal Abidin	-	-	-	-
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 spouse and child.*

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Fourth Annual General Meeting (“**AGM**”) of VSTECS BERHAD (“**VSTECS**” or “**the Company**”) will be held on a fully virtual basis with the Broadcast Venue located at Training Room, VSTECS Berhad, Lot 3, Jalan Teknologi 3/5, Taman Sains Selangor, Kota Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 16 June 2020 at 10:30 a.m. or at any adjournment thereof for the following purposes:-

A G E N D A

As Ordinary Business

1. To receive the Audited Financial Statements for the financial year ended 31 December 2019 together with the Reports of the Directors and the Auditors thereon. ***(refer to Note (B))***

2. To re-elect the following Directors who retire in accordance with Clause 21.6 of the Constitution of the Company:-

   (a) Mr. Foo Sen Chin; and ***(Resolution 1)***
   (b) Mr. Ong Wei Hiam ***(Resolution 2)***

3. To re-elect the following Directors who retire in accordance with Clause 21.10 of the Constitution of the Company:-

   (a) Dato’ Khoo Sin Aik; and ***(Resolution 3)***
   (b) Encik Abdul Aziz bin Zainal Abidin ***(Resolution 4)***

4. To approve the payment of Directors’ fees of RM417,113 (Ringgit Malaysia: Four Hundred Seventeen Thousand One Hundred and Thirteen) only for the financial year ended 31 December 2019. ***(Resolution 5)***

5. 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 6)***

As Special Business

To consider and, if thought fit, with or without any modification, to pass the following resolutions:-

6. **ORDINARY RESOLUTION NO. 1** ***(Resolution 7)***
   - PAYMENT OF BENEFITS PAYABLE TO THE DIRECTORS UNDER SECTION 230 OF THE COMPANIES ACT 2016

   “**THAT** the benefits payable to the Directors up to an amount of RM92,887 (Ringgit Malaysia: Ninety-Two Thousand Eight Hundred and Eighty-Seven) only for the period from 1 July 2020 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.”

7. **ORDINARY RESOLUTION NO. 2** ***(Resolution 8)***
   - AUTHORITY TO ISSUE SHARES PURSUANT TO THE COMPANIES ACT 2016

   “**THAT** subject always to the Companies Act 2016 (“**the Act**”), the 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 per centum (10%) of the total number of issued shares of the Company for the time being;

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING
cont'd

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."

8. **ORDINARY RESOLUTION NO. 3** ***(Resolution 9)***
- PROPOSED RENEWAL OF AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES ("PROPOSED RENEWAL OF SHARE BUY-BACK")

"**THAT** subject to Section 127 of the Act, the Constitution of the Company, Main Market Listing Requirements ("**Main LR**") 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 ("**Purchased Shares**") 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 and/or resell on the market of Bursa Securities; and/or

(iii) retain part thereof as treasury shares and cancel the remainder; and/or

(iv) distribute the shares as dividend to shareholders, such dividend is to be known as "share dividend"; and/or

(v) resell the shares or any of the shares in accordance with the relevant rules of the stock exchange; and/or

(vi) transfer the shares, or any of the shares as purchase consideration; and/or

(vii) cancel the shares or any of the shares; and/or

(viii) sell, transfer or otherwise use the shares for such other purposes as the Minister may by order prescribe; and/or

in any other manner as prescribed by the Act, the applicable laws, regulations and guidelines applied from time to time by Bursa Securities and/or any other relevant authority for the time being in force and that the authority to deal with the Purchased Shares shall continue to be valid until all the Purchased Shares have been dealt with by the Directors.

NOTICE OF TWENTY-FOURTH 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 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."

9. **ORDINARY RESOLUTION NO. 4** ***(Resolution 10)***
- PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("PROPOSED NEW SHAREHOLDERS' MANDATE")

"**THAT** subject to the provisions of the Main LR of Bursa Securities, approval be and is hereby given to the Company and its subsidiaries ("**VSTECS Group**") to enter into any of the transactions falling within the types of recurrent related party transactions of a revenue or trading nature of VSTECS Group with specified classes of Related Parties (as defined in the Listing Requirements and as specified in the Company's Circular/Statement to Shareholders dated 22 May 2020) which are necessary for the day-to-day operations and are in the ordinary course of business and are carried out on an arm's length basis on normal commercial terms of VSTECS Group on terms not more favourable to the Related Parties than those generally available to the public and are not, in the Company's opinion, detrimental to the minority shareholders of the Company.

THAT the Proposed New Shareholders' Mandate is subject to annual renewal. In this respect, any authority conferred by the Proposed New Shareholders' Mandate, shall only continue to be in force until:-

(i) the conclusion of the next AGM of the Company following the general meeting at which the Proposed New Shareholders' Mandate was passed, at which time it will lapse, unless by a resolution passed at the AGM whereby the authority is renewed; or

(ii) the expiration of the period within which the next AGM is required by law to be held pursuant to Section 340(2) of the Act but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act; or

(iii) it is revoked or varied by resolution passed by the shareholders of the Company in a general meeting,

whichever is the earlier,

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING
cont'd

AND THAT the Board of Directors of the Company be and is hereby authorised to do all acts, deeds, things and execute all necessary documents as they may consider necessary or expedient in the best interest of the Company with full power to assent to any conditions, variations, modifications and/or amendments in any manner as may be required or permitted under relevant authorities and to deal with all matters in relation thereto and to take such steps and do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and give full effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

10. To transact any other business of which due notice shall have been given.

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689) (SSM PC NO. 201908002648)
CHENG CHIA PING (MAICSA 1032514) (SSM PC NO. 202008000730)
Company Secretaries

Kuala Lumpur
Dated: 22 May 2020

Notes:-

(A) Information for Shareholders/Proxies

1. *As a precautionary measure amid the outbreak of Coronavirus Disease ("Covid-19") pandemic, VSTECS shall conduct the Twenty-Fourth AGM as a fully virtual general meeting via the Remote Participation and Voting ("**RPV**") facilities provided by Tricor Investor & Issuing House Services Sdn. Bhd. via its TIIH Online website at https://tiih.online.*

   The Broadcast Venue is strictly for the purpose of complying with Clause 18.4 of the Company's Constitution and Section 327(2) of the Act, which requires the Chairman of the meeting to be present at the main venue of the Meeting.

   *Shareholders **WILL NOT BE ALLOWED** to attend the Twenty-Fourth AGM in person at the Broadcast Venue on the day of the Meeting.*

   *By utilising the RPV facilities at TIIH Online (prior registration as a User is required), shareholders are to remotely attend, participate, speak (by way of posing questions to the Board via real time submission of typed texts) and cast their votes at the Twenty-Fourth AGM. **Please refer to the Administrative Guide for procedures to utilise the RPV facilities and take note of Notes (2) to (9) below in order to participate remotely via RPV facilities.***

2. *In respect of deposited securities, only members whose names appear in the Record of Depositors on 9 June 2020 ("General Meeting Record of Depositors") shall be eligible to attend the AGM via RPV facilities.*

3. *A member (including authorised nominee) entitled to attend and vote at the Meeting via RPV facilities, may appoint more than one (1) proxy to attend and vote at the AGM via RPV facilities, to the extent permitted by the Act, Securities Industry (Central Depositories) Act, 1991, Main LR of Bursa Securities, and the Rules of Bursa Malaysia Depository Sdn. Bhd. 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.*

4. *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 AGM via RPV facilities is entitled to appoint any person as his/her proxy to attend and vote instead of the member at the AGM without limitation. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at the AGM via RPV facilities shall have the same rights as the member to attend, participate, speak and vote at the AGM.*

5. *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.*

6. *Where a member is an exempt authorised nominee who 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 of which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*

7. *A member who has appointed a proxy or attorney or authorised representative to attend, participate, speak and vote at this AGM via RPV facilities must request his/her proxy to register himself/herself for RPV facilities at TIIH Online website at https://tiih.online. **Please refer to the Administrative Guide for procedures to utilise the RPV facilities.***

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING
cont'd

8. *Publication of Notice of Twenty-Fourth AGM and Proxy Form on corporate website*

   Pursuant to Section 320(2) of the Act, a copy of this Notice together with the Proxy Form are available at the corporate website of VSTECS Berhad at https://vstecs.listedcompany.com/ar2019.html.

9. *Submission of Proxy Form in either hard copy form or electronic form*

   The appointment of proxy(ies) may now be made either in hard copy form or by electronic form, and, shall be deposited with the Company's Share Registrar, namely, Tricor Investor & Issuing House Services Sdn. Bhd., either at the designated office as stated below or vide TIIH Online, not less than forty-eight (48) hours before the time appointed for holding the AGM or adjournment thereof (i.e. on or before Sunday, 14 June 2020 at 10:30 a.m.):-

Mode of Submission	Designated Address
Hard copy	Tricor Investor & Issuing House Services Sdn. Bhd. Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur
Hard copy	Tricor Investor & Issuing House Services Sdn. Bhd. Customer Service Centre Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur
Electronic appointment	TIIH Online Weblink: **https://tiih.online** (Please refer to the Administrative Guide for further information on electronic submission).

(B) Audited Financial Statements for the financial year ended 31 December 2019

This Agenda item is meant for discussion only, as the provision of Section 340(1)(a) of the Act 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

*In determining the eligibility of the Directors to stand for re-election at the forthcoming Twenty-Fourth 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. Foo Sen Chin and Mr. Ong Wei Hiam, for re-election as Directors pursuant to Clause 21.6 of the Constitution of the Company, and Dato' Khoo Sin Aik and Encik Abdul Aziz Bin Zainal Abidin for re-election as Directors pursuant to Clause 21.10 of the Constitution 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-Fourth AGM of the Company under Resolutions 1, 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 Overview Statement of the Annual Report 2019 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 of Directors' meetings, respectively.

(D) Payment of Directors' Fees

The Proposed Directors' Fees for the financial year ended 31 December 2019 was RM417,113 (2018: RM444,675.00).

The Resolution 5, if approved, will authorise the payment of Directors' Fees pursuant to Clause 21.4 of the Constitution of the Company.

(E) Re-appointment of Auditors

*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 2020. 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-Fourth AGM of the Company under Resolution 6. 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 Overview Statement of the Annual Report 2019 of the Company.*

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING
cont'd

Explanatory Notes to Special Business:

(F) Retention of Independent Non-Executive Directors

*Ms. Ho Chee Kit ("**Ms. Ho**") and Encik Ahmad Subri Bin Abdullah ("**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 more than nine (9) years. Ms. Ho and En. Subri have expressed their intention not to seek for retention as the Independent Non-Executive Directors at the forthcoming Twenty-Fourth AGM. Hence, they will retain office until the close of the Twenty-Fourth AGM of the Company.*

(G) Payment of Benefits Payable

Under proposed Resolution 7, 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 Act

*The Company wishes to renew the mandate on the authority to issue shares pursuant to the Act at the Twenty-Fourth 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-Third AGM of the Company held on 15 May 2019 (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.

(I) Proposed Renewal of Share Buy-Back

*The proposed Resolution 9, 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.*

Further details are set out in the Part A of the Circular/Statement to Shareholders dated 22 May 2020 circulated together with this Annual Report.

(J) Proposed New Shareholders' Mandate

The proposed Resolution 10, if passed will enable the Company and its subsidiaries (VSTECS Group) to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the Group's day-to-day operations, subject to the transactions being in the ordinary course of business and on terms which are not more favourable to the related parties than those general available to the public and are not, in the Company's opinion, detrimental to the Minority shareholder of the Company.

Further details are set out in the Part B of the Circular/Statement to Shareholders dated 22 May 2020 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 ____
(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-Fourth Annual General Meeting ("**AGM**") of the Company to be held on a fully virtual basis with the Broadcast Venue located at Training Room, VSTECS Berhad, Lot 3, Jalan Teknologi 3/5, Taman Sains Selangor, Kota Damansara, 47810 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 16 June 2020 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 Proxy	%
	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	Re-election of Mr. Foo Sen Chin as Director		
Resolution 2	Re-election of Mr. Ong Wei Hiam as Director		
Resolution 3	Re-election of Dato' Khoo Sin Aik as Director		
Resolution 4	Re-election of Encik Abdul Aziz Bin Zainal Abidin as Director		
Resolution 5	Payment of Directors' Fees		
Resolution 6	Re-appointment of KPMG PLT as Auditors and to fix their remuneration		
Resolution 7	Ordinary Resolution No. 1 – Payment of Benefits Payable to the Directors		
Resolution 8	Ordinary Resolution No. 2 – Authority to Issue Shares		
Resolution 9	Ordinary Resolution No. 3 – Proposed Renewal of Share Buy-Back		
Resolution 10	Ordinary Resolution No. 4 – Proposed New Shareholders' Mandate		

Dated this ____________ day ______________________ 2020.

Shareholder's Contact Number

Signature of Member/Common Seal

Fold This Flap For Sealing

AFFIX
STAMP

The Company's Share Registrar

VSTECS BERHAD [199501021835 (351038-H)]

Tricor Investor & Issuing House Services Sdn Bhd
[197101000970 (11324-H)]

Unit 32-01, Level 32, Tower A,
Vertical Business Suite, Avenue 3,
Bangsar South, No. 8, Jalan Kerinchi
59200 Kuala Lumpur

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(A) Information for Shareholders/Proxies

1. *As a precautionary measure amid the outbreak of Coronavirus Disease ("Covid-19") pandemic, VSTECS shall conduct the Twenty-Fourth AGM as a fully virtual general meeting via the Remote Participation and Voting ("**RPV**") facilities provided by Tricor Investor & Issuing House Services Sdn. Bhd. via its TIIH Online website at https://tiih.online.*

   The Broadcast Venue is strictly for the purpose of complying with Clause 18.4 of the Company's Constitution and Section 327(2) of the Act, which requires the Chairman of the meeting to be present at the main venue of the Meeting.

   *Shareholders **WILL NOT BE ALLOWED** to attend the Twenty-Fourth AGM in person at the Broadcast Venue on the day of the Meeting.*

   *By utilising the RPV facilities at TIIH Online (prior registration as a User is required), shareholders are to remotely attend, participate, speak (by way of posing questions to the Board via real time submission of typed texts) and cast their votes at the Twenty-Fourth AGM. **Please refer to the Administrative Guide for procedures to utilise the RPV facilities and take note of Notes (2) to (9) below in order to participate remotely via RPV facilities.***

2. *In respect of deposited securities, only members whose names appear in the Record of Depositors on 9 June 2020 ("General Meeting Record of Depositors") shall be eligible to attend the AGM via RPV facilities.*

3. *A member (including authorised nominee) entitled to attend and vote at the Meeting via RPV facilities, may appoint more than one (1) proxy to attend and vote at the AGM via RPV facilities, to the extent permitted by the Act, Securities Industry (Central Depositories) Act, 1991, Main LR of Bursa Securities, and the Rules of Bursa Malaysia Depository Sdn. Bhd. 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.*

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8. *Publication of Notice of Twenty-Fourth AGM and Proxy Form on corporate website*

   Pursuant to Section 320(2) of the Act, a copy of this Notice together with the Proxy Form are available at the corporate website of VSTECS Berhad at https://vstecs.listedcompany.com/ar2019.html.

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9. *Submission of Proxy Form in either hard copy form or electronic form*

   The appointment of proxy(ies) may now be made either in hard copy form or by electronic form, and, shall be deposited with the Company's Share Registrar, namely, Tricor Investor & Issuing House Services Sdn. Bhd., either at the designated office as stated below or vide TIIH Online, not less than forty-eight (48) hours before the time appointed for holding the AGM or adjournment thereof (i.e. on or before Sunday, 14 June 2020 at 10:30 a.m.):-

Mode of Submission	Designated Address
Hard copy	Tricor Investor & Issuing House Services Sdn. Bhd. Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur
Hard copy	Tricor Investor & Issuing House Services Sdn. Bhd. Customer Service Centre Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur
Electronic appointment	TIIH Online Weblink: **https://tiih.online** (Please refer to the Administrative Guide for further information on electronic submission).

(B) Audited Financial Statements for the financial year ended 31 December 2019

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.

VSTECS BERHAD
[Registration No. 199501021035 (351038-H)]

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