Datuk Seri Dr Nik Norzrul Thani Bin Nik Hassan Thani
Independent Non-Executive Chairman

DEAR SHAREHOLDERS,

On behalf of the Board of Directors of Chin Hin Group Berhad ("Chin Hin" or "the Company" or "the Group"), it is my pleasure and privilege to present the Annual Report and Audited Financial Statement for the financial year ended 31 December 2018 ("FY2018").

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

CHIN HIN GROUP BERHAD ("Chin Hin Group / Our Group") is a fully integrated building materials manufacturer and distributor conglomerate. We began our journey approximately fifty (50) years ago with humble beginning as a building materials trader in Alor Setar. Over the years, our hard work, vision, commitment and customer focus have enabled us to become a highly respected leader in building materials and a billion ringgit public-listed company with nation-wide presence. Chin Hin Group today has expanded its business to cover not only trading but also manufacturing and services across:

- Fire-Rated and Wooden Door
- Concrete Drymix
- Wire Mesh Products
- Ready-Mix Concrete
- Provision of Logistics
- Modular Building Solutions
- Pre-Cast Concrete Products
- Autoclaved Aerated Concrete ("AAC")
- Ultra-High Performance Concrete ("UHPC")

For the financial year ended 31 December 2018 ("FY2018"), the Group continued to focus on its core businesses to consolidate its presence as a preferred and trusted market leader in the building material industry. In 2018, the Group has venturing into its upstream and downstream industries via the acquisition of 100% equity stake in Kempurna Sdn Bhd ("Kempurna"), a company which specialises in the manufacturing of steel door frame and the acquisition of 70% equity stake in Saujana Vision Sdn Bhd ("Saujana Vision"), that specialises in Industrialised Building System ("IBS"), which is a growing trend in the construction industry. Both of the acquisitions have been completed on December 2018.

The acquisition of Saujana Vision is especially apposite to Chin Hin Group whereby we will be able to attain a higher level of economies of scale in view that Chin Hin Group is an integrated builders' conglomerate that provides building material distributions and services to the construction and building industries, and its subsidiary is also involved in the manufacture and assembly of pre-fabricated modular building system ("PMBS"). As such, it complements and diversifies the products or services offering of Chin Hin Group, thereby mitigating our risk of over dependence on the distribution of building materials sector.

Our Group has been growing from strength to strength, embracing new challenges as we expand our expertise. Being a community-focused, growth and value-oriented building materials manufacturer, we place reliability at the core of our operations and will continue to ensure better value creation for our stakeholders, focusing especially on our customers.

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION

STATEMENTS OF COMPREHENSIVE INCOME

	FY2018 RM'000	FY2017 RM'000	Variance	
			RM'000	%
Revenue	1,105,417	1,015,410	90,007	8.86
Gross profit	101,508	101,492	16	0.02
Gross profit margin (%)	9.2%	10.0%	(0.8%)	(8.00)
Profit before tax ("PBT")	33,749	39,458	(5,709)	(14.47)
Profit after tax ("PAT")	24,099	29,612	(5,513)	(18.62)
PAT margin (%)	2.2%	2.9%	(0.7%)	(24.14)

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)

Revenue

	FY2018 RM'000	FY2017 RM'000	Variance	
			RM'000	%
Investment holding and management services	16,206	31,585	(15,379)	(48.69)
Distribution of building materials and provision of logistics	633,467	625,066	8,401	1.34
Ready-mixed concrete	96,939	101,247	(4,308)	(4.25)
Manufacturing of fire-rated door	24,532	28,718	(4,186)	(14.58)
Manufacturing of AAC and precast concrete products	221,020	183,557	37,463	20.41
Manufacturing of wire mesh and metal roofing systems	167,478	174,183	(6,705)	(3.85)
Modular building solutions	52,892	–	52,892	–
Sub-total	**1,212,534**	**1,144,356**	**68,178**	**5.96**
Adjustment and eliminations	(107,117)	(128,946)	21,829	(16.93)
Total	**1,105,417**	**1,015,410**	**90,007**	**8.86**

The Group reported a revenue of RM1,105.42 million in FY2018, an increase of RM90.00 million or 8.86% as compared to RM1,015.41 million in the preceding year. The increase in revenue for the current financial year were mainly derived from the higher revenue from the segment of modular building solutions, manufacturing of AAC and precast concrete products and distribution of building materials. The said increase was partially mitigated by the decreased revenue from our ready-mixed concrete sector, manufacturing of wire mesh and metal roofing systems and the manufacturing of fire-rated door divisions.

In this respect, the modular building solutions revenue was derived from the recognition of revenue from the project to build an integrated workers complex in Mukim Pengerang, Daerah Kota Tinggi, Johor. Please refer to "Review of Operating Activities" below for further analysis.

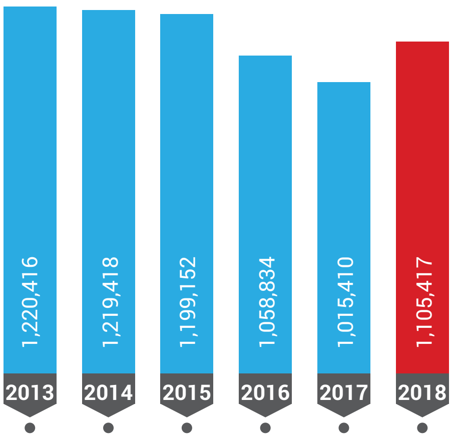
The higher revenue from the manufacturing of AAC block was driven by the growth in market demand for panel in the local and Singapore's markets, while the increase in revenue from the precast concrete products was mainly due to the followings:

- surge in sales volume for box culvert, U-shape drain pipe, beam and chamber ring from Rawang plant;
- ogee pipe, spun spigot, socket joint pipe and jacking pipe from Bidor plant; and
- increase in export of polymer pipes to Singapore market.

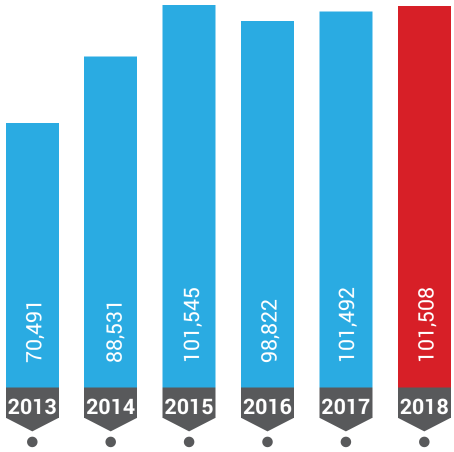
Growth in the revenue for the distribution of building materials segment was mainly due to the expansion of imported plywood sales to the local market, increase in the trading of sherra plank wood, paint and fibre cement products despite the drop in the cement sales.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

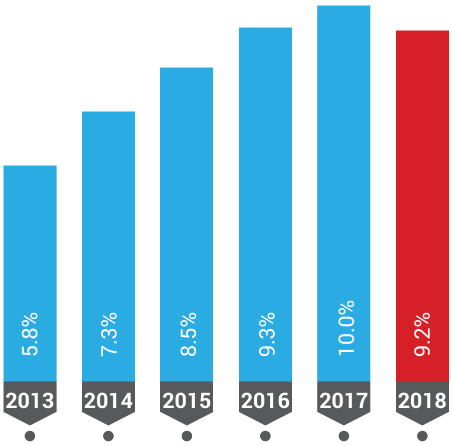
REVENUE (RM'000)



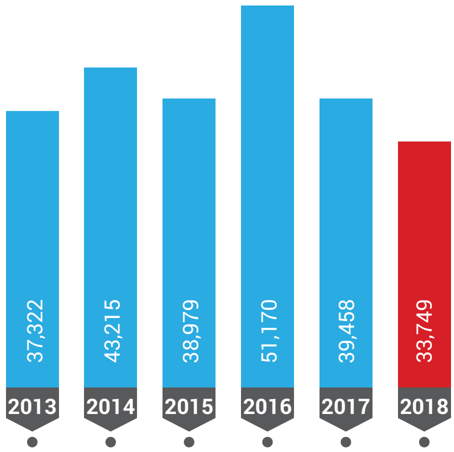
GROSS PROFIT (RM'000)



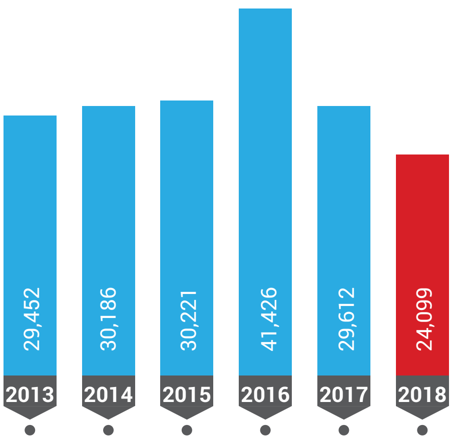
GROSS PROFIT MARGIN (RM'000)



PROFIT BEFORE TAXATION (PBT) (RM'000)



PROFIT AFTER TAXATION (PAT) (RM'000)



MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)

Gross profit and gross margin

The Group's gross profit was increased marginally by RM0.02 million or 0.02% from RM101.49 million in the preceding year to RM101.51 million in the current year. The higher gross profit was mainly due to:

- the profit recognised of RM9.69 million from the modular project which kicked start in early 2018;
- the higher sales from the precast concrete and polymer pipes sector; and
- the improved profit margin from the manufacturing of wire mesh as a result of changing our business strategy to focus on manufacturing of special mesh which can fetch higher return.

Nevertheless, the positive impacts were substantially impacted by the gross loss suffered by the two newly start-up companies i.e. Sage Evergreen Sdn Bhd ("Sage Evergreen") and G-Cast UHPC Sdn Bhd ("G-Cast UHPC") of RM6.61 million. As such, our gross profit margin for the current year recorded a decrease of 0.80% as compared to the preceding year of 10.00%. However, should the gross losses of RM6.61 million from the two newly start-up companies were excluded from the current year gross profit, our Group's gross profit margin would be recorded at 9.78%.

Other income

Other income has decreased by RM1.30 million or 13.18% from RM9.86 million in the preceding year to RM8.56 million in the current year primarily due to the reversal of doubtful debts arising from the distribution of building materials sector in the last quarter of financial year ended 31 December 2017 ("FY2017") of RM1.75 million.

Fair value adjustment on investment properties

The fair value adjustment on investment properties for the financial year under review has increased by RM5.24 million primarily resultant from the valuation gain on a piece of land and industrial factory belongs to the mesh business which is located at Daerah Seberang Prai Tengah, Pulau Pinang.

Expenses

The Company's administration expenses have increased by RM7.89 million or 19.00% year-on-year ("YoY"). The increase was mainly due to the higher provision for impairment of trade receivables amounted RM3.60 million. Whilst, the impairment loss of RM1.15 million has been recognised in FY2018 on various precast concrete factory buildings. The balance of the increase was contributed by the abovementioned newly start-up companies.

The Group's finance cost for the current year has increased by RM6.12 million YoY principally due to the drawdown of additional RM93.56 million bankers' acceptance coupled with revolving credits, RM42.13 million term loans, RM12.33 million overdrafts against progressive claim ("ODPC") and RM7.69 million bank overdrafts. During the year, the Company also has pared down its term loan by RM16.88 million.

Share of results of associates

Share of profit of associate companies has doubled up as compared to the preceding year mainly contributed by the speeding up of the two major projects on hand i.e. 62MWp large scale solar photovoltaic ("LSSPV") project in Gambang, Pahang and the 58.5MWp LSSPV project in Kuala Kertih, Kedah which has reached the final stage of completion. Besides, the higher profits were contributed from the profit recognised on the Net Energy Metering ("NEM") roof-top projects and the service income derived from the operations and maintenance contracts.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)

Profit

Given the abovementioned increased in admintrative expenses and finance costs, the Group reported a lower profit before tax ("PBT") of RM33.75 million as compared to RM39.46 million reported for the preceding year. Excluding the new start-up companies' pre-tax losses of RM14.70 million, impairment loss of RM1.15 million and the fair value gain on investment properties of RM5.39 million, the underlying PBT for financial year 2018 shall recorded at RM44.21 million which is much higher than the underlying PBT of RM39.46 million for FY2017.

The current financial year's effective tax rate of 28.59% was higher than the preceding year's rate of 24.95% mainly due to the current year and prior year under provision in deferred tax liabilities of RM2.07 million and RM0.84 million respectively arising from the temporary timing differences between accounting income and taxable income, fair value gain on investment properties, impairment loss on property, plant and equipment and the losses incurred by the three newly start-up companies.

Order book

The Group's order book presently stands at RM328.11 million, which will keep the Group busy for the next 12 to 18 months. In view of the above initiatives, the Group expects the level of sales and profitability in 2019 will be optimistic.

STATEMENTS OF FINANCIAL POSITION

	FY2018 RM'000	FY2017 RM'000	Variance	
			RM'000	%
Non-current assets	608,885	510,572	98,313	19.26
Current assets	548,505	457,304	91,201	19.94
Total assets	**1,157,390**	**967,876**	**189,514**	**19.58**
Total equity	**417,718**	**400,315**	**17,403**	**4.35**
Non-current liabilities	106,914	73,629	33,285	45.21
Current liabilities	632,758	493,932	138,826	28.11
Total liabilities	**739,672**	**567,561**	**172,111**	**30.32**
Net assets per shares attributable to ordinary owner of the company	RM0.75	RM0.72	RM0.03	4.17

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF FINANCIAL POSITION (CONT'D)

Total assets

In FY2018, total assets of the Group increased by RM189.52 million to close the financial year at RM1,157.39 million, with the analysis belows:

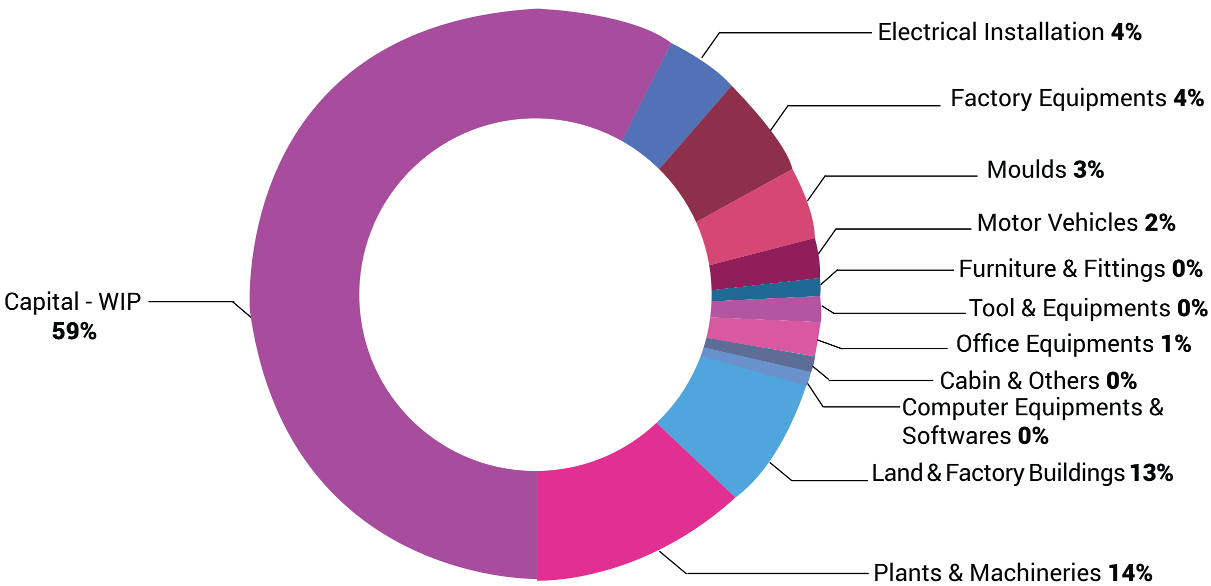
- the biggest chunk of increase originated from the acquisition of property, plant and equipment, net of depreciation and disposal of RM88.46 million arising from acquisition of subsidiary companies of RM64.50 million and for capacity expansion of RM56.10 million (exclude finance lease financing of RM0.09 million), please refer capital expenditure detailed below;
- the increase in goodwill of RM8.09 million arising from the acquisition of 100% issued share capital of Kempurna for RM4.14 million and 70% issued share capital of Saujana Vision for RM5.0 million;
- investment in an associate company of RM4.75 million, arising from our share of net profit after tax in FY2018;
- the increase of trade receivables and inventories totalling RM44.44 million after the expansion of its manufacturing sector's sales and product portfolio; and
- the increase in other receivables of RM20.12 million resultant from the disposal of Formino Metal Sdn Bhd ("Formino") and the GST input tax claimable from the Royal Customs of Malaysia (please refer to explanation below).

Robust Capital Expenditure ("Capex")	Breakdown of Capex (Additions exclude finance lease financing) (RM)	Breakdown of Capex (Arising from acquisition of subsidiary companies) (RM)	Breakdown of Capex (Total) (RM)
Land & Factory Buildings	15,917,517	-	15,917,517
Plant & Machineries	15,481,894	1,795,931	17,277,825
Capital - Work in Progress (WIP)	8,777,313	61,706,887	70,484,200
Electrical installation	4,746,649	-	4,746,649
Factory Equipments	4,394,888	-	4,394,888
Moulds	3,600,310	-	3,600,310
Motor Vehicles	1,326,708	893,720	2,220,428
Furniture & Fittings	491,215	11,107	502,322
Office Equipments	711,125	75,251	786,376
Computer Equipments and softwares	459,060	6,944	466,004
Cabins & Others	90,608	8,418	99,026
Tool & Equipments	103,399	-	103,399
Total	**56,100,686**	**64,498,258**	**120,598,944**

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF FINANCIAL POSITION (CONT'D)



Breakdown of Capex (Total)

In FY2018, 98.38% of total capital expenditures incurred was due to outlay on land & factory buildings, plant & machineries, capital work in progress, electrical installation, factory equipments, moulds and motor vehicles, mainly arising from acquisition of subsidiaries and due to extension of the production capacity of the manufacturing plants, with the material information as belows:

1. Capital Expenditures for Extension of Production Capacity

(a) Land and factory buildings

- Additional RM7.97 million for the construction of Sage Evergreen's factory building with two storey office on the 50.6 acres of freehold land located at Mukim of Kota Tinggi, Daerah Kota Tinggi and another RM1.66 million for land title conversion premium to convert the said land title from agriculture to industrial status;
- RM4.32 million to construct Starken Drymix Solution Sdn Bhd's ("Starken Drymix") new plant at Bidor; and
- Additional RM1.33 million was spent on the extension, improvement and foundation on G-Cast Concrete Sdn Bhd's ("G-Cast Concrete") several plants located at Serendah, Rawang, Bidor and Kulai.

(b) Others

- RM19.00 million was spent on the plant and machineries, capital WIP and factory equipments for the AAC block & panel plant at Kota Tinggi, Johor with RM4.11 million spent on its electrical and installation works;
- RM4.46 million was spent for the purchase of plant and machineries for Starken Drymix with RM0.47 million spent on its electrical and installation works; and
- RM3.60 million was spent for the purchased of moulds for various precast concrete plant located at Serendah, Rawang, Bidor and Kulai to gear up for the new product expansion, with another RM3.27 million spent on the plant and machineries, capital WIP and motor vehicles.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF FINANCIAL POSITION (CONT'D)

2. Capital Expenditures arising from acquisition of subsidiary companies

(a) Saujana Vision

RM61.71 million was spent on the six (6) blocks of integrated workers complex in progress located in Mukim Pengerang, Daerah Kota Tinggi, Johor and another RM0.56 million on saloon cars.

(b) Kempurna

RM1.80 milion was spent on the steel door frame plant and machineries i.e. press brake machines, turret punch machines, swing beam shear machine, power press machines, leveller feeder coupled with complete set of full auto metal sheet and automatic door frame cold roll forming machine. Another RM0.33 million was spent on lorry and saloon cars.

Current assets increased from RM457.30 million as at 31 December 2017 to RM548.51 million as at 31 December 2018, mainly contributed by higher trade receivables which is in line with the increase in revenue in FY2018 coupled with higher trade receivables turnover period of 112 days due to the challenging operating environment. The inventories increased by 23.63% or RM16.91 million YoY as we consciously increase our inventory level at the newly start-up companies i.e. Starken Drymix, Sage Evergreen and the various G-Cast Concrete's factory at Serendah, Kulai, Bidor and Rawang after the expansion of its product portfolio.

Whereas the increase in other receivables of RM20.12 million are resultant from the balance due by Frontscape Sdn Bhd ("Frontscape") to Metex Steel Sdn Bhd of RM9.00 million and amount due by Formino to Chin Hin Group of RM4.37 million respectively, as a result of management buyout of Formino. The settlement term agreed upon for the management buyout was staggered structured payment. The disposal was undertaken for the purpose of reducing the cost associated in maintaining the loss-making subsidiary and thereby improving the balance sheet of Chin Hin Group. The said disposal will enable Chin Hin Group to relocate the Group's resources into other business activities that are anticipated to be more promising. Besides, the increase was also contributed by the additional GST input tax claimable from the Royal Customs of Malaysia totalling RM3.52 million, accrued discount/rebate from materials supplier of approximately RM2.00 million and RM1.74 million deposit paid to TNB for Bidor concrete plant.

Total equity

Total equity has increased by RM17.40 million YoY, mainly due to enhancement of retained earnings of RM13.69 million (after netting off the dividend declared during the year of RM8.34 million and Expected Credit Loss of RM0.92 million due to the first time adoption of MFRS 9 *Financial Instruments*) and revaluation reserves of RM7.60 million which partially set-off by the increase in treasury shares of RM4.99 million during FY2018.

Total liabilities

Total liabilities increased by RM172.11 million YoY, mainly due to drawdown of additional banking facilities during FY2018, of which RM42.13 million term loan was solely used to partly finance the construction costs and machineries and equipment of the second AAC manufacturing plant in Kota Tinggi, Johor. In addition, the increase was also due to the drawdown of bankers' acceptance coupled with revolving credits totalling RM93.56 as well as RM7.69 million bank overdraft for working capital purposes.

Besides, there was a drawdown of RM12.33 million ODPC to fund the modular project. The increased in banking facilities were being partially reduced by the repayment of term loans totalling RM16.88 million and the settlement of hire purchase facilities of RM1.95 million.

Asides from this, the increase in liabilities were also contributed by the increase in trade payables by 4.48% as compared to FY2017, mainly due to the increase in purchases during FY2018, which is in line with the increase in inventories, as abovementioned.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF FINANCIAL RESULTS AND FINANCIAL CONDITION (Cont'd)

STATEMENTS OF FINANCIAL POSITION (CONT'D)

Net assets per share

The net assets per share has decreased by RM0.03 or 4.17% due to the increased in the enlarged issued shares of the Company during the third quarter of FY2017 via the issuance of 50.50 million units of shares for total proceeds of RM65.65 million through private placement exercise.

STATEMENTS OF CASH FLOWS

	FY2018 RM'000	FY2017 RM'000	Variance	
			RM'000	%
Net Cash flows (used in)/from operating activities	(68,833)	38,937	(107,770)	>100.00
Net Cash flows (used in) investing activities	(51,912)	(134,932)	83,020	61.53
Net Cash flows from financing activities	103,523	73,938	29,585	40.01
Net decrease in cash and cash equivalents	(17,222)	(22,057)	4,835	21.92

The Group's net cash inflows from operating activities for the FY2018 decreased by RM107.77 million, largely due to the increase in inventories, trade and other receivables as mentioned above. The decrease was also contributed by the reduction in trade payables of RM49.73 million as a results of acquisition of Kempurna and Saujana Vision during the year.

Cash outflows from investing activities recorded a net outflow of RM51.91 million mainly due to the activities below:

- The capital expenditures of RM56.10 million as detailed above;
- Acquisition of the 70% issued share capital in Saujana Vision for a consideration of RM5.00 million; and
- Acquisition of the entire issued share capital in Kempurna for a consideration of RM4.79 million.

The above cash outflows from investing activities were partially mitigated by the proceeds received from disposal of Formino of RM10.22 million.

The net cash inflows for financing activities of RM103.52 million, mainly stemmed from the drawdown of banking facilities totalling RM135.70 million as detailed above, and offset partially by the repayment of term loans coupled with finance lease liabilities totalling RM16.88 million and RM1.95 million respectively and repurchase of Chin Hin Group's share of RM4.99 million.

Our business operations are financed by a combination of internal and external sources of funds. Internal sources of funds comprise mainly shareholders' equity and cash generated from our operations, while external source of funds comprises trust receipts and bankers' acceptance, term loans, hire purchase as well as credit terms granted by our suppliers. Credit terms granted to us by our suppliers range from 14 to 120 days.

The management believes that after taking into account our cash and bank balances as well as the funds envisaged to be generated from our business operations, we will have adequate working capital to meet our present and foreseeable day-to-day business operation requirements.

Save as aforementioned, we are not aware of any other known trends and events that are reasonably likely to have a material effect on our operations, performance, financial condition and liquidity.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES

GENERAL OVERVIEW

Throughout the fiscal year we continued to pursue our internal enhancements across the Group through revamping processes and structures via the introduction of more automation for example robotic arm to reduce production time, eliminate of human error, improve product quality and reliability, cost reduction, reduce over dependence on foreign labour in line with the government's commitments and efforts to achieve the target of limiting the employment of foreign workers at fifteen percent (15%) for the country's total employment rate by 2020 as outlined in the 11th Malaysia Plan. Besides, the Group has also introduced more cranes for easier and faster handling to significantly reduce handling time and hence further reduce manpower in the manufacturing plant in order to make our products more competitive in the market.

Picture:
Robotic Arm installed at Starken Drymix's manufacturing plant

In terms of products, Chin Hin Group has made it a compulsory requirement to enforce all its new manufacturing plants to acquire quality accreditations, BS EN 14636-1:2009 – Polymer Piping Systems, ISO 9001:2015 - Quality Management System and ISO 14001:2015 - Environmental Management System standards once the production process is established and stabilised in line with our five (5) years defined roadmap as envisaged in our "Brand Transformation", to be the **"MOST PREFERRED, TRUSTED AND ADMIRED TOTAL SOLUTIONS PROVIDER AND PARTNER TO THE BUILDING MATERIALS AND CONSTRUCTION INDUSTRY IN ASEAN"**.

Picture:
Continued product improvements – Polymer Pipes

The clear direction has directed us to re-look into all the product costing by analysing in detail the possibilities of wastages and inefficiency and re-design our processes using business metrics to eliminate all the inefficiencies. Moreover, additional test has been carried out like "Abrasion Resistance Test" on its polymer pipes to further proof that the GRP liner can resist abrasion and prove the smooth surface claims. This move will surely increase the marketability and acceptance of our product as compared to other brand in the market.

In terms of customers' satisfaction, Chin Hin Group has initiated a programme called "Joint Practises Session" during mid of 2018 to promote collaboration across business units to leverage on the sales and marketing personnel strength with the ultimate aim to boost up sales through "Cross Selling". Weekly meetings are held to discuss on the challenges faced in the market, new projects and products available in the market and identify new customers and ways to increase sales. This move has greatly improved the relationship and cooperation among the sales personnel within the Group and hence the financial performance.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES

SEGMENTAL OVERVIEW

Distribution of building materials and logistics

The building materials distribution landscape has changed tremendously off late. Amid such uncertainties clouding the construction sector with mega projects being revised or deferred and slow properties take-up rate, the distribution of building materials division's earnings or margins are affected.

Notwithstanding the above, the distribution of building materials and provision of logistics sector recorded a total revenue of RM633.47 million in FY2018, a marginal increase of 1.34% as compared to RM625.07 million recorded in the previous year, which contributed 57.31% (FY2017: 61.56%) of the Group's consolidated revenue. Growth in the revenue for the distribution of building materials segment was mainly due to the expansion of imported plywood sales to the local market, increase in the trading of sherra plank wood, paint and fibre cement products.

Despite the marginal increase in revenue, the gross profit margin has declined by 0.89% from 7.13% in FY2017 to 6.24% in FY2018. The decline in margin was primarily due to the challenging business environment, where competitors were adopted price-war strategy to secure order in order to ensure survival. As such, PBT has droped by RM9.37 million, from RM15.52 million in FY2017 to RM6.15 million in FY2018. Moreover, the drop in profit also contributed by the lower other income recorded primarily due to the reversal of doubtful debts arising from the old debtors' collection in the last quarter of FY2017 of RM1.75 million, the reversal of construction costs over-accrued for the three storey shop lot in Kota Bharu, Kelantan of RM0.84 million after the twenty four months defect liability period lapsed in FY2017, dividend income received by PP Chin Hin Sdn Bhd from its subsidiary company of RM1.00 million in FY2017 and interest expense on inter-company financial asset at amortised cost of RM1.63 million in FY2018 (resultant after the adoption of MFRS 9 *Financial Instruments*).

The distribution of building material division has on 6 June 2018 entered into the Sale and Purchase Agreements ("SPAs") for the sale of Rawang Units, Gunung Indah Units and Mergong Units to Chin Hin Building Materials Supply (JB) Sdn Bhd ("Proposed Disposal") for a total cash consideration of RM21.15 million as per the tabulation below. The Proposed Disposal is deemed to be a related party transaction and shareholders' approval has been obtained at the Extraordinary General Meeting held on 26 November 2018:

Said Properties	Consideration (RM)
Rawang Units	7,100,000
Gunung Indah Units	3,600,000
Mergong Units	10,450,000
Total	**21,150,000**

The rationale of the Proposed Disposal were due to the said properties comprised of shop offices which are not used for any of our business operations and were the non-core assets of the Chin Hin Group. The Proposed Disposal provides an avenue for the building materials sector to realise its investment in these non-core assets at their market values, and raise cash proceeds for our business operations' working capital to fund the inventories purchase in order to remain competitive, relevant and protect their margins as well as market shares.

Moreover, the Proposed Disposal will also reduce the administrative time and effort required on maintenance and enable the Group to focus its resources on its core businesses. Separately, the Proposed Disposal will enable the distribution of building materials segment to repay its bank borrowings partially, which will reduce the Group's gearing level and improve the Group's cash flow position due to the lower interest expense.

On 13 March 2019, the Company has announced that the parties have mutually agreed to :

i) extend the conditional period of the Rawang Units up to 5 June 2019; and
ii) extend the completion period for the Mergong Units and Gunung Indah Units up to 5 September 2019 or 3 months from the unconditional date of the SPAs for the Rawang Units, whichever is earlier.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES (Cont'd)

SEGMENTAL OVERVIEW (CONT'D)

Ready-Mixed Concrete

The revenue for the ready-mixed concrete segment decrease by approximately RM4.31 million or 4.26% from RM101.25 million in FY2017 to RM96.94 million in FY2018, which contributed 8.77% (FY2017: 9.97%) of the Group's consolidated revenue. As such, PBT of the said segment recorded at RM2.88 million, a decline of approximately 7.99% from RM3.13 million in FY2017. The decrease in revenue and PBT from the ready-mixed concrete segment was mainly due to the stiff competition encountered from cement-based-operators whereby they using their own batching plant to penetrate the market by offering lower selling prices.

Manufacturing of fire-rated door

The manufacturing of fire-rated door segment recorded a revenue of RM24.53 million, a decline of RM4.19 million or 14.59% as compared to the preceding year's results of RM28.72 million, which contributed 2.22% (FY2017: 2.83%) of the Group's consolidated revenue.

The profit before tax has declined by RM1.35 million, from RM3.73 million in FY2017 to RM2.38 million in FY2018. The decline in profit before tax for the manufacturing of fire-rated door division was contributed by the drop in gross profit margin from 26.02% to 20.73%. The fact is substantiated by the raw materials pricing have increased throughout the financial year yet the cost hike cannot be passed on to the client due to market competitiveness. Moreover, many projects secured were delayed due to uncertainties clouding for the construction sector after the change of Government.

With reference to the Share Sale Agreement for the acquisition of Midah Industries Sdn Bhd ("Midah Industries") and Epic Diversity Sdn Bhd ("Epic Diversity"), a total profit guarantee of RM6.00 million is to be fulfilled by the previous owners of Midah Industries and Epic Diversity for both the FY2017 and FY2018. Chin Hin Group, via its subsidiary company, PP Chin Hin Sdn Bhd had via a letter dated 30 November 2017 agreed to waive the requirement for the previous owners of Midah Industries and Epic Diversity to fulfil the profit guarantee of RM3.00 million for FY2018, as the Group are confident that both Midah Industries and Epic Diversity will be able to achieve the profit guarantee for FY2018 after they have met the profit of RM3.73 million in FY2017 and with the fire door order books on hand of RM14.80 million as at 30 November 2017. However, as at end of December 2018 both companies merely achieved RM5.76 million PBT out of the RM6.00 million profit guaranteed for both financial years. The profit shortfall of RM0.24 million was merely due to the uncertainties of construction sector, as mentioned above.

Manufacturing of AAC and Precast Concrete Products

The manufacturing of AAC and precast concrete products segment recorded a total revenue of RM221.02 million in FY2018, representing a growth of 20.41% as compared to RM183.56 million recorded in FY2017 and contributed 19.99% (FY2017: 18.08%) of the Group's consolidated revenue. This sector recorded a PBT of RM11.48 million, representing a decline of 48.15% as compared to RM22.14 million in FY2017.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES (Cont'd)

SEGMENTAL OVERVIEW (CONT'D)

Manufacturing of AAC and Precast Concrete Products (Cont'd)

Manufacturing of AAC and Precast Concrete Products Sector	2018	2018	2017	2017	Remarks
	RM'000 Revenue	RM'000 PBT	RM'000 Revenue	RM'000 PBT	
Starken AAC Sdn Bhd	102,753	7,358	94,102	10,648	
G-Cast Concrete Sdn Bhd	82,326	9,586	68,341	12,780	
Starken Drymix Sdn Bhd	5,731	171	3,349	655	2018 – There was a fair value gain on investment property of RM1.72 million which subsequently reclassified as property, plant and equipment at the Group consolidation level.
MI Polymer Concrete Pipes Sdn Bhd	10,305	6,843	7,459	(1,950)	2018 – Inter-company sales of RM10.195 million & inter-company dividend received by MI Polymer Concrete Pipes Sdn Bhd of RM5.357 million from MI Polymer Concrete Pipes Pte Ltd.
MI Polymer Concrete Pipes Pte Ltd	10,851	276	10,010	1,567	2017 – inter-company sales of RM7.40 million
G-Cast UHPC Sdn Bhd	650	(2,921)	296	(442)	
Sage Evergreen Sdn Bhd	6,594	(10,228)	-	(972)	
Green Cement Sdn Bhd	1,810	395	-	(149)	
	221,020	11,480	183,557	22,137	

The increase in revenue for the manufacturing of AAC was driven by the growth in market demand for panel in the local and Singapore's market. The hike in the usage for AAC block and wall panel in the local market undoubtedly proven that the products have gained traction ahead of the mandatory adoption of IBS system in Malaysia by 2020. Nevertheless, the drop in PBT YoY for the manufacturing of AAC division was primarily due to the increase in raw materials and finance cost. The surge in finance cost of RM1.61 million principally attributable to the interest incurred on the drawdown of RM30.00 million revolving credit facility.

The increase in the revenue for precast concrete products to RM82.33 million from RM68.34 million, an increase of RM13.99 or 20.47% were due to the surge in sales volume for box culvert, U-shape drain pipe, beam and chamber ring from Rawang plant; ogee pipe, spun spigot, socket joint pipe and jacking pipe from Bidor plant. PBT has declined by RM3.19 million largely due to the provision for doubtful debts of RM1.17 million and impairment loss of RM1.15 million on various precast concrete factory buildings.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES (Cont'd)

SEGMENTAL OVERVIEW (CONT'D)

Manufacturing of AAC and Precast Concrete Products (Cont'd)

MI Polymer Concrete Pipes Group of companies' ("MIPCP") revenue has increased by RM0.89 million or 8.87% from RM10.07 million in the preceding year to RM10.96 million in the current financial year. Nonetheless, MIPCP's PBT has increased by RM2.15 million due to the loss of RM1.19 million sustained on the disposal of a unit of double storey bungalow to the previous owner in FY2017 and a hefty sum of approximately RM0.58 million being spent on the pipes testing in compliant with the 100 years durability requirement as specified in the new standard, BS EN 14636-1:2009 which came into effect from June 2017. Pursuant to the Conditional Share Sale Agreement dated 3 April 2017 entered into between MIPCP's Vendors and Starken AAC, whereby MIPCP sale shares are sold excluding a piece of land with a double storey bungalow house located at Batu Pahat, Johor.

Green Cement Sdn Bhd's revenue of RM1.81 million and PBT of RM0.39 million derived solely from the selling of pulverised fuel ash ("PFA") to Chin Hin's related company within the Group. The PFA sold came from the Jimah East Power Plant located in Port Dickson, pursuant to the Letter of Agreement signed with Jimah Energy Ventures Sdn Bhd ("Owner") on 19 April 2018 for the temporary collection of fly ash (also known as PFA) which expired on 18 July 2018. However, the term of the agreement has been extended on a month-to-month basis, to be renewed automatically every month unless terminated by the Owner with not less than seven (7) days' notice in writing.

Our organic growth company, Starken Drymix, whom specialise in the production of thin adhesive base, render, skim coat, tile adhesive, panel plaster and basic skim has started its testing and commissioning on its new plant located at Bidor in the mid of May 2018. Starken Drymix managed to turnaround as at end of December 2018. Nevertheless, Starken Drymix has sustained a total loss before tax of RM1.55 million in FY2018 after eliminating the gain on investment property of RM1.72 million (land located at Serendah) which was subsequently reclassed as property, plant and equipment at the Group's consolidation level.

Sage Evergreen and G-Cast UHPC has sustained a loss before tax of RM10.23 million and RM2.92 million respectively due to the initial production cost, administration expenses and finance cost.

Excluding those said losses of RM14.70 million, impairment losses of RM1.15 million on various precast concrete factory buildings and the fair value adjustments on investment properties of RM1.72 million which was eliminated later at the consolidated accounts level, the underlying profit before tax for the manufacturing of AAC and precast concrete products in FY2018 shall recorded at RM25.61 million which is much higher than the underlying profit before tax of RM22.14 million for FY2017.

Segmental Detail	2018 RM'000
Manufacturing of AAC and Precast Concrete Products - PBT	11,480
Adjustments:	
Sage Evergreen Sdn Bhd - losses before tax	10,228
Starken Drymix Solutions Sdn Bhd – losses before tax (exclude investment properties gain)	1,549
G-Cast UHPC Sdn Bhd – losses before tax	2,921
G-Cast Sdn Bhd - Impairment losses on various precast concrete factory buildings	1,148
Starken Drymix Soluations Sdn Bhd - fair value gain on investment properties	(1,720)
Adjusted profit before tax	25,606

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES (Cont'd)

SEGMENTAL OVERVIEW (CONT'D)

Manufacturing of Wire Mesh and Metal Roofing Systems

Segmental Detail	2018 (RM'000)	2017 (RM'000)	Variance (RM'000)	%
Manufacturing of Wire Mesh and Metal Roofing Systems - loss before tax	(1,770)	(3,608)	1,838	50.94
Adjustments:				
Investment Properties Gain	(5,093)	(2,300)	(2,793)	>100
Loss on disposal of subsidiary company - Formino	4,028	-	4,028	-
Actual Results of Wire Mesh & Metal Roofing System	(2,835)	(5,908)	3,073	52.01

The manufacturing of steel mesh and metal roofing systems segment recorded a total revenue of RM167.48 million in FY2018, representing a decrease of 3.85% as compared to RM174.18 million recorded in FY2017, and contributed 15.15% (FY2017: 17.15%) of the Group's consolidated revenue. The decrease was resultant from the divestment of Formino, a company specialising in the roofing system. The divestment was completed in mid of April 2018. This sector recorded a loss before tax of RM2.84 million after the adjustment of RM5.09 million on the fair value gain on investment properties of a piece of land and industrial factory located at Daerah Seberang Prai Tengah, Pulau Pinang and the loss sustained on the disposal of its subsidiary company, Formino of RM4.03 million.

The decline in losses suffered by our wire mesh products in FY2018 was mainly due to the drop in wire rod price against the locked-in selling price for project secured and also caused by the impact of changing our business strategy to focus on manufacturing of special mesh which can fetch higher return.

Modular Building Solutions

Metex Modular Sdn Bhd ("Metex Modular ") has recognised RM52.89 million revenues or 22.19% out of the total project sum of RM238.30 million, to build an integrated workers complex with comprehensive facilities in Mukim Pengerang, Daerah Kota Tinggi, Johor. This project incorporates PMBS, the highest level of IBS. The modular building solutions segment recorded a total revenue of RM52.89 million in FY2018, and contributed 4.78% (FY2017: Nil) of the Group's consolidated revenue. The modular business recorded a RM9.17 million PBT for FY2018 versus a loss of RM0.01 million sustained in FY2017.

According to the original plan, the fast-track project should be completed within a period of 12 months i.e. by end December 2018. The delay of project is basically due to potential demographic change of Pengerang workforce vis a vis the mixture of building type of the project, namely the ratio among accommodation unit for workers, supervisor and manager. In order to optimise its occupancy rate, the project plan is being reviewed to increase accommodation unit for worker and revise the sport and recreation facilities. The new plan will be submitted for approval in due course. Eventually, the Group has decided to defer the balance of project work until the six completed blocks, which can accommodate 2,496 pax of worker are rented out right after the acquisition of 70% equity stake in Saujana Vision, the project owner for this development in the mid of December 2019.

As mentioned above, Metex Modular has on 12 December 2018 entered into a Share Sale Agreement with the vendors of Saujana Vision, to acquire 70% of the equity interest in Saujana Vision for a total cash consideration of RM5.0 million ("Proposed Acquisition"). Saujana Vision is the project owner for the RM238.30 million integrated workers complex. The Proposed Acquisition of Saujana Vision has been completed on 31 December 2018.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

REVIEW OF OPERATING ACTIVITIES (Cont'd)

SEGMENTAL OVERVIEW (CONT'D)

Modular Building Solutions (Cont'd)

The rationale of the Proposed Acquisition includes, it provides a platform for Chin Hin Group to showcase its capabilities in constructing and maintaining PMSB, an advanced form of IBS, for the integrated workers complex. This is in line with the government's initiative to promote IBS, reduce reliance on foreign workers in the construction sector. In addition, the Proposed Acquisition opens the way for Chin Hin Group to venture downstream into the business as a builder and contractor that specialises in IBS, which is a growing trend in the construction industry. The Construction Industry Development Board and Public Works Department planned to adopt IBS in the construction sector in stages and make it mandatory in projects by 2020. Currently, it is already compulsory for all Government projects to adopt IBS. This is especially apposite to Chin Hin Group who will be able to attain a higher level of economies of scale in view that Chin Hin Group is an integrated builders' conglomerate that provides building material and services to the construction and building industries, and its subsidiary is also involved in the manufacture and assembly of PMSB.

THE GROUP'S PROSPECTS

The operating environment is envisaged to remain challenging in 2019. Chin Hin Group has adopted a cautious strategy to focus on consolidating our existing business and to turnaround the loss-making investment. Besides, Chin Hin Group will still be pursuing the strategy of continue widening its product portfolio and diversify its income stream in order to achieve synergistic with its existing and the new businesses.

TRADING SECTOR

Chin Hin Group has focused on other building materials instead of the bread and butter commodity products with diminishing margins as increasingly more manufacturers dealt with Business to Customers approach. The trading division has moved to a more stable and consistent revenue stream sector i.e. the hardware dealers' market. The Company is actively expanding its customers mix from project-based contractor to hardware dealer and retailer.

Chin Hin Group has also expanded the dealer group from traditional timber and metal dealers to specialty dealers such as tiles retail or dealers, paint shops, water proofing applicators. Besides, the trading division has added two new warehouses in 2018 located in Butterworth and Perak. As of to date, there are nine warehouses in total in the Peninsular Malaysia. The rationale of setting up more warehouses is to provide more efficient in delivery lead time and distribution to these hardware dealers and retail outlets. The trading division has also upgraded themselves to be the importer and stockist for plywood and fiber cement products i.e. Shera, Kalsi in addition to local Hume Cemboard.

MANUFACTURING OF FIRE-RATED DOOR SECTOR

The Company via its wholly-owned subsidiary, Midah Industries, had on 14 December 2018 completed the acquisition of the entire equity interest in Kempurna, a company specialises in the manufacturing of metal doors and window frames. The acquisition of Kempurna would be able to complement the Group's fire-rated door business besides enabling Chin Hin Group to enhance its involvement and market share in the door manufacturing business.

In early February 2019, Midah Industries has acquired additional plant and machineries to further expand its product range to include the manufacturing of wooden door, high density fiberboard (HDF) door, louvers, timber frame, handrail, architrave and skirting. It enables Chin Hin Group to become a "Total Door Solutions Provider" in the door market and it fits in nicely with the Group's business strategies on vertical integration.

Besides, Chin Hin Group has set up a new company in Alor Setar during the last quarter of FY2018 to expand its fire door manufacturing business into the northern region. The new set up is expected to commence operation by mid 2019.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

THE GROUP'S PROSPECTS (Cont'd)

MANUFACTURING OF AAC AND PRECAST CONCRETE PRODUCTS SECTOR

The Group has actively expanded the production capacity of its AAC block, precast concrete, drymix products, and precast UHPC business in the recent years by either setting up more plants and additional production line or via acquisition of potential companies to strengthen its product presence and customer portfolios. Notwithstanding the subdued property market, Chin Hin Group continues to see steady order flows for its AAC products, which are fast gaining in popularity as the building blocks for affordable housing in Malaysia.

Chin Hin Group will continue to export its AAC block and wall panel to the neighbouring countries particularly to Singapore, Philippines, and Australia. Our new AAC production line with 600,000m3 installed capacity located at Kota Tinggi, Johor which has started its testing and commissioning in early June 2018 has managed to ramp up to thirty percent (30%) capacity as of end of March 2019. Part of its additional capacity will be channelled towards manufacturing wall panels, which are fast gaining ground as an IBS component. Chin Hin Group is angling for a higher share in the well-developed Singaporean market, as Kota Tinggi plant is only located some 50km away (31 miles). Against this positive backdrop, Chin Hin Group believes its latest plant can reach a utilization rate of 45% by end of December 2019.

Asides, fifty percent (50%) extra capacity to 300,000 metric tonnes in the Precast Concrete division has been achieved after the rolled out of three new plants at Kulai, Bidor and Rawang. The Group production capacity will be further enhanced with the setup of a 45,000 tonne precast plant in Kota Tinggi next to the existing AAC block plant after its completion expectedly by mid 2019. The enlarged capacity enables Chin Hin Group to make further inroads into even larger-scale infrastructure projects particularly within the railway sub-sector which they are pursuing now. The Group foresee a strong growth in the infrastructure precast concrete business especially after the recent expansion of its product portfolio i.e. prestress and reinforce concrete beam, crosshead, cable trough, long-span bridge, prestress slab, arch culvert, medium pressure jacking pipe, eco-module and emergency walkway which they are producing now that require added technical expertise.

Picture: Crosshead 1

Picture: Crosshead 2

Picture: MRT 2 - Cable Troughs

Picture: MRT2 - Emergency Walkway

Picture: RC Tee Beam

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

THE GROUP'S PROSPECTS (Cont'd)

MANUFACTURING OF AAC AND PRECAST CONCRETE PRODUCTS SECTOR

The Company via its indirect wholly-owned subsidiary, G-Cast Concrete Sdn Bhd has entered into a 10-year Coal Ash Offtake agreement with Tanjung Bin Power Sdn Bhd ("TBP"), a subsidiary of Malakoff Corporation Berhad to collect bottom ash and fly ash (collectively hereinafter refer to as the "Coal Ash") on a non-exclusive basis (the "Agreement"). Coal Ash is the by-product from the combustion of 3 x 700 MW coal fired power station plant located at Tanjung Bin, Johor Darul Takzim which is owned by TBP ("Plant"). The said Agreement will benefit the Company in terms of lower raw material cost and it is part of Chin Hin's sustainability initiatives to consume the recycle ash as construction material as practiced in Europe and Japan. The use of fly ash ("PFA") in the concrete will also improve the compressive strength and durability in term of increasing its resistance toward chemical attacks namely sulphate and acid. On 12 February 2019, TBP has granted G-Cast the extension of condition precedent period of six (6) months commencing on 14 February 2019 for the fulfilment of procuring clearances, authorisations, approvals and permissions from Department of Environment.

MIPCP had on 19 July 2018 obtained SPAN approval for its products certified by IKRAM. This will enable MIPCP to gradually supply its products in Malaysia to break the clay pipes dominant market. In addition to its continued domination of the Singapore market for its Jacking Pipes of diameters 800mm, MIPCP is establishing its presence in regional markets such as India, the Philippines and Australia instead of over dependence on its only market, Singapore. The long-term test on polymer concrete pipes to withstand the required loading using pipe strength at the end of 100 years to comply with BS EN 14636-1:2009 is progressing well and the test report is expected to be released in the middle of 2019. With the said accreditation, it will enhance our presense locally and regionally.

Picture: Polymer Concrete Pipes

Starken Drymix which is located at Bidor, has reached its production utilisation rate at 40% level as at the end of March 2019. The machine reliability has enhanced and the absolute production volumes have improved greatly lately after the installation of new robotic arms.

Picture: Rainbow Bridge at Elmina, Denai Alam, Shah Alam completed by G-Cast UHPC

G-Cast UHPC has managed to secure RM17.29 million worth of projects as at the end of December 2018. These projects are expected to kick start and contribute positively to the bottom line of the Group in 2019.

MANUFACTURING OF WIRE MESH SECTOR

The slowdown in the local construction industries resulting steel demand remains a challenge. Margins have been compressed by a slowdown in state-led investment since a change of Government in May 2018, and rampant sub-standard mesh products supplied by some unscrupulous competitors into the market.

Nonetheless, the effort of working with affordable housing sector remains optimistic. Together with the initiative of Authority for efficient enforcement to curb sub-standard mesh products in the market place, the Company expect a positive prospect for year 2019.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

THE GROUP'S PROSPECTS (Cont'd)

MODULAR BUILDING SOLUTIONS SECTOR

The balance of the contract work, to build an integrated workers complex with comprehensive facilities in Mukim Pengerang, Daerah Kota Tinggi, Johor of approximately RM185.00 million will be resumed once the completed six (6) blocks are rented out. The Company is applying for Certification of Fitness (CF) at this juncture and targeting to lease out the said completed six (6) blocks which can accommodate 2,496 pax by mid 2019. Metex Modular is busy building mock-ups modular unit for overseas projects e.g. in Arab Saudi and New Zealand besides lobbying for local projects.

SOLAR POWER GENERATION INCOME - OTHER INCOME AND ASSOCIATES COMPANY

The Group continues to record the Green Technology Solar Panel (Feed in Tariff) gross income of RM2.87 million in FY2018 from its electricity production capacity of 2,425 kilowatt per hour ("kWh"). Pursuant to the Share Sale Agreement signed between Chin Hin and the vendors of Atlantic Blue Sdn Bhd ("ABSB") for the acquisition of 45% equity interest in ABSB on 18 July 2017, the vendors vide the Promoter's Company guarantees that ABSB shall attain the profit after tax of RM20,000,000.00 in aggregate within twenty four (24) months from the Completion Date i.e. 24 August 2017. As at 31 December 2018, ABSB has realised RM15.10 million profit after tax within the sixteen months period after the completion date as per the tabulation below. Chin Hin is confident that the vendors of ABSB is able to meet the profit guarantee by August 2019 in view of the projects secured as mentioned below.

PROFIT GUARANTEE TRACKING

	RM	RM
Profit Guaranteed by the vendors of ABSB		20,000,000
Minus:		
PAT from September'17 to December'17 (4 months period)	4,883,255	
PAT for FY2018 (12 months period)	10,215,302	15,098,557
Balance of PAT to be attained from January'19 to August'19		4,901,443

The Malaysian Government had recently called for 500MW Request for Proposals ("RFP") bids with an estimated RM2 billion worth of projects under the third round of the grid-connected Large-Scale Solar ("LSS3") scheme to increase electricity generation from renewable energy. This bid is for 2021/2022 installation. The bidding requirement emphasised that the contractor for engineering, construction and commissioning must be 100% local as there are enough local industry players in Malaysia.

Picture: 58.8MWp DC capacity solar plant in Kuala Kertih, Terengganu

Our associate company, Atlantic Blue Sdn Bhd, an established turnkey engineering, procurement, construction and commissioning (EPCC) contractor whom has installed a total capacity of 104.37MWp across the residential, commercial and industrial segment and as an experienced subcontractor for LSSPV is confident to secure subcontract projects from the said LSS3 scheme. Under the scheme, the Government has urged household owner with a monthly electricity bill of at least RM300.00 and SMEs to install solar panels to reduce electricity costs. Energy, Technology, Science, Climate Change and Environment Ministry's recent efforts in discussing with banks on how to provide SMEs with more favourable lending packages will greatly enhance the prospect of our associate company in its project replenishment efforts.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

THE GROUP'S PROSPECTS (Cont'd)

PROFIT GUARANTEE TRACKING (CONT'D)

The Government intends to provide sustainable, reliable and affordable solar energy for Malaysians through new policies beginning Jan 1, 2019, such as the new NEM Scheme and Supply Agreement for Renewable Energy ("SARE").

- The NEM scheme will upgrade from the net billing concept to the pure net energy metering scheme that will be applicable only to Peninsular Malaysia for registered TNB customers. Under the existing net billing (scheme), excess electricity is sold to TNB at displaced cost of 31 sen per kWh, but under the new scheme, monthly electricity bill will be the consumption (from TNB) minus generation (from solar) multiply with the retail electricity tariff. This will result in additional electricity savings per month and will help the return of investment in PV systems. The new NEM scheme is suitable for rooftop and car park solar PV installation. For ground-mounted system, it may be allowed on case-by-case basis and the installation shall be within the compound of the applicant's premises and approved by the Energy Commission. Atlantic Blue, being one of the registered solar PV service providers under the NEM scheme by SEDA Malaysia will greatly boost up its projects secure rate.

- Under the SARE scheme, there will be a tripartite agreement entered between the three parties (Customers, Solar Investor/Lessor and TNB). TNB will provide the service of billing, collection and remittance of the payment by customer to solar investor/lessor and in return, TNB imposes a small service charge. SARE scheme will enable any private local or foreign company to invest in solar energy NEM program. It is expected to grow solar leasing and private Power Purchase Agreement ("PPA"). Global solar leasing investor are increasing to have interest in Malaysia market to develop more leasing or private PPA. Under solar leasing, there will be zero upfront cost where individuals need not come out with any initial cost for installing solar panels.

TNB, through its unit, will be offering financing self-generation packages for solar PV panels for residential customers as the demand for green energy climbs. These packages will be offered by TNB Renewables Sdn Bhd's unit - GSPARX Sdn Bhd ("GSPARX") and other players such as Nefinco and Cleantech Solar which has started offering packages to commercial and industrials customers. Customers do not have to make any upfront payment but pay a lease as GSPARX will bear the cost for purchasing and installing solar PVs. Customers will benefit from saving and hedging opportunities. GSPARX has targeted to offer 1,500MW of self-generation for solar photovoltaic ("PV") investment by 2025. Atlantic Blue will benefit from the unlocking of business potentials of solar PV installation.

The above new policies were introduced to create a fertile ground to grow the solar industry by opening the market and subsequently push the local players to become regional solutions providers.

As of the date of this Annual Report, Atlantic Blue has secured three (3) large scale solar ("LSS2) projects to provide subcontracting work worth a total value of RM158.07 million to be completed by the last quarter of 2019; namely:

- 12.8 MWp DC solar farm in Mukim Asam Kumbang, Kamunting, Daerah Larut dan Matang, Perak for Asia Meranti Solar (Kamunting) Sdn Bhd;
- 13.0 MWp DC solar farm in Mukim Teja, Daerah Kampar, Perak for Asia Meranti Solar (Kampar) Sdn Bhd; and
- 12.9 MWp DC solar farm in Mukim Sungai Raya, Daerah Kinta, Perak for Asia Meranti Solar (Kinta) Sdn Bhd

ANTICIPATED OR KNOWN RISKS

In line with Bursa Malaysia Securities Berhad's regulatory framework on the disclosure requirements, we highlight below the key anticipated or known risks that our Group is exposed to that may have a material effect on our operations, performance, financial condition and liquidity. Our plans and strategies to mitigate these risks have also been disclosed below:-

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

ANTICIPATED OR KNOWN RISKS (Cont'd)

(i) Business risks

Our Group is principally involved in the manufacturing of building materials. Hence, we are subject to the risks inherent to the manufacturing and construction industries. These include, amongst others, rising costs of labour and raw materials, availability of skilled personnel, changes in laws and regulations applicable to our business, business and credit conditions as well as fluctuations in foreign exchange rates. There can be no assurance that any material changes to these factors will not have a material adverse effect on the business operations of our Group.

Nevertheless, our Group has been taking effective measures to mitigate the aforementioned risks such as prudent financial management and efficient operating procedures. Further, we constantly keep abreast of economic and regulatory changes relating to our business.

(ii) Operational risks

Due to the nature of our Group's operations, interruptions in our Group's operating capabilities through disruption in electricity supply and failure or damage of production machineries or other disruptions to our manufacturing processes may have an adverse effect to our Group's business and financial performance.

To avoid major breakdowns and disruptions to our operations, electricity supply and relevant equipment are constantly monitored and our production machinery undergo scheduled maintenance.

(iii) We are dependent on our experienced management and key personnel

We attribute our success to the leadership and continued contribution of our key senior management team led by our Group Managing Director, Chief Executive Officer and Chief Financial Officer. We believe that our continued and future success largely depend on our continued ability to hire, train, motivate and retain our key senior management and technical team comprising engineers and other qualified personnel needed to develop new products, services, support our existing range of products.

Having a strong key senior management and technical team are vital to maintain the quality of our Group's services whilst retaining the business confidence of the clients. The loss of these key senior management and technical team simultaneously or within a short span of time without suitable and timely replacement, or our inability to attract and retain qualified and competent personnel, may adversely affect our Group/s operations. Separately, the loss of our Group Managing Director, Chief Executive Officer and Chief Financial Officer may also adversely affect us.

To mitigate such risk, our Human Resource Department had drawn up contingency plans for human resource risks such as death, disability and employees quitting. Effective succession planning such as training and coaching the second liner can reduce such risk.

(iv) We are subject to the credit risk of our customers

Our financial performance and position are dependent, to a certain extent on the creditworthiness of our customers. If our customers are unable to pay us on time or have difficulty in making payments to us, our cash flow will be affected. We generally grant our customer credit terms within the range of sixty (60) to ninety (90) days. We are exposed to credit risks arising from trade receivable which risks may increase during periods of economic uncertainty or market downturn, and which are beyond our control.

During credit application process, our Credit Control Department (CCD) will perform CCRIS and CTOS check on the background our new client. Based on the financial data obtained, CCD will recommend the credit limit for management approval. Continuous monitoring of customer payment trend and conduct of customer visit to effectively mitigate the risk of customer default in their payment.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

ANTICIPATED OR KNOWN RISKS (Cont'd)

(v) Competition risks

The building materials industry in which our Group operate is highly competitive in nature. Although there is intense competition amongst the existing players (both new and existing in the manufacturing of building material industry, there are high barriers to entry such as high initial capital investment and working capital resouces, which lessen the threat from more players entering the industry.

On the other hand, the Malaysian building materials distribution industry is very fragmented, characterised by a host of small, medium and large players, which resulted in a very competitive market, Players survive and grow by adopting strategies that allow them to maintain their competitiveness. For larger players like us, strategy is to continually leverage on our economies of scale, negotiating power, strong financial resouces and wide distribution network which smaller market players do not have.

FORWARD-LOOKING STATEMENT

The Malaysian economy is expected to face another tumultuous year in 2019 as it is being challenged by on-going domestic adjustments and rising external headwinds, particularly lingering uncertainties about the state of the US-China trade disputes and further tightening of the US interest rates. Other global pressure points developing are the UK's Brexit deal; the erratic movements of global oil prices, geopolitical and political risks. The Malaysian economy growth slows to 4.7% in 2018 as compared to 5.9% in 2017 amid the mentioned challenging external environment and fiscal consolidation initiatives by the new Government.

The drag on growth came from multi-faceted factors i.e. weakening exports, declines in mining and agriculture output, a sharp contraction in public investment and moderate private investment growth. The key driver of 2019's economic growth, which we estimate to grow by 4.5%-4.7% would be domestic demand-driven, largely underpinned by private sector spending. Public sector expenditure will continue to consolidate and rationalise, focusing on essential sectors such as socio-economic projects, education and the on-going public infrastructure projects, particularly LRT, MRT and highways.

The new Government is targeting to build 100,000 affordable homes by the end of 2019, in line with its manifesto to build one million budget houses in ten (10) years. The new Government had allocated RM1.50 billion to build and complete affordable homes under the People's Housing Programme, Civil Servants Housing Project, PR1MA, and Syarikat Perumahan Nasional Berhad. The deployment of these projects will strengthen the growth in the demand for building materials. These projects will drive the activities within the Group as Chin Hin Group is in a better fortuitous than others in securing those projects due to the Group's expertise in the IBS.

With regard to industry challenges, we foresee intense market competition with the emergence of new players in the market. As part of the risk mitigating measures, Chin Hin Group will continue to re-position itself to be a "Total Solution Provider" or a value-added partner that comprehensively handles the project needs of their client from concept to installation through customer-support. The Group will continue to improve on its product quality and services in order to stay competitive in the market.

Moving forward, the Group will focus on consolidating its business and turnaround the loss-making investment. The Group continues to adopt the policy of widening its product portfolio and diversify its income stream through organic growth and/or mergers and acquisitions. Barring any unforeseen circumstances, Chin Hin Group envisage a brighter outlook for the financial year ending 31 December 2019 and look to the future with cautious optimism.