MANAGEMENT DISCUSSION & ANALYSIS

MARKET LANDSCAPE

The financial year ended 31 December 2017 ("FY2017") was indeed a momentous and landmark one indeed for Chin Hin Group Berhad ("Chin Hin" or "the Group"). It marked The Group's continued consolidating of its core business in manufacturing and also a stark interest in the solar industry via the acquisition of 45% equity stake in Atlantic Blue Sdn Bhd ("Atlantic Blue") a company which specialises in large-scale solar farming and provision of solar photovoltaic solutions. To move ahead of its rivals, Chin Hin had ventured into the Pre-fabricated modular building systems to further enhance its business prospects which create synergies with the Group as 70-80% of building components and materials used are supplied-in house.

The Group continues to focus on strengthening its increased production capacity through more synergistic collaborations. We believe this is one of the key strengths, which is unique to us. In addition, the Group remains committed to achieving its corporate vision and mission by adopting innovations and effective business practices as the core enablers.

Our rise to become a reputable construction materials solution partner in the construction industry in Malaysia wasn't an overnight initiative. We continue to push the boundaries and actively seek ways to further consolidate our presence as a market leader and the preferred cum trusted brand of the construction sector.

Financial Review

Financial Indicators	FY2017	FY2016	Variance
Revenue (RM'000)	1,015,410	1,058,834	(4.10)%
Gross Profit (RM'000)	101,492	98,822	(2.70)%
Profit Before Tax ("PBT") (RM'000)	39,458	51,170	(22.89)%
Profit After Tax ("PAT") (RM'000)	29,612	41,426	(28.52)%
Net assets	0.93	1.01	(0.08)
Debt to Equity ratio (times)	0.96	1.00	(0.04)
Gross Profit Margin (%)	10.0	9.3	0.7%
Net Profit Margin ("PAT") (%)	2.9	3.9	(1.0)%

For the financial year under review, the Group revenue decreased by 4.10% to RM1,015.41 million from RM1,058.83 million as compared to the preceding financial year. The lower turnover was due to the decline in revenue from our distribution of building material and ready-mixed concrete sector which were off-set by the increase in revenue from the manufacturing of autoclaved aerated concrete (AAC) blocks, precast concrete products, steel mesh products and the newly acquired fire rated door, lockset and polymer concrete product turnover. The decline in the revenue from the distribution of building material was due to the decrease in sales volume of cement by approximately 21.12% as a result of the further softening of housing construction activities and the impact of cement manufacturers selling direct-to-customer (DTC). The further decrease in revenue from ready-mixed concrete was due to lower sales volume exacerbated by stiffen competition in the subdued property market. The higher revenue from manufacturing of the AAC and precast concrete products were driven by the strong market demand and order books on hand as a result of marketing team's effort in securing more specified projects. Whereas, the higher revenue from manufacturing of steel mesh was due to the extra capacity from the new fast-speed CTS welder, MG800 machine stationed in Nilai.

Gross profit margin has improved to 10.00% in FY2017 from 9.33% as compared to the preceding financial year. The increase in the Group's gross profit margin was mainly contributed by the benefit derived from economies of scale enjoyed by the autoclaved aerated concrete (AAC) block plant located in Serendah and the strong gross profit margin from the fire rated door and lockset products.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Financial Review (cont'd)

Other operating income has decreased by approximately RM2.17 million or 18.04% from RM12.03 million in preceding financial year to RM9.86 million in the FY2017 were mainly due the loss of rental income in 2017 as a result of a disposal of thirty-one (31) units of prime movers, tippers and tankers in the year 2016. Further, the decreased was also due to the one off gain of RM1.45 million from the disposal of the thirty-one (31) units of prime movers, tippers and tankers and a gain of RM0.97 million from the disposal of a unit of warehouses located in Alor Setar during the financial year ended 31 December 2016 ("FY2016").

Distribution expenses have reduced by RM1.35 million or 11.77% due to the adoption of efficient routing and scheduling planning by the logistics departments. The increase in administrative expenses in the current year of RM8.99 million was mainly due to the operating cost of RM5.25 million incurred by the newly acquired companies i.e. Midah Industries Sdn Bhd ("Midah Industries"), Epic Diversity Sdn Bhd ("Epic Diversity") and MI Polymer Concrete Pipes Group of companies and the pre-operating expenses of approximately RM1.62 million being charged out for the newly set-up companies i.e. Green Cement Sdn Bhd ("Green Cement"), Starken Drymix Solutions Sdn Bhd (formerly known as Green Drymix Solutions Sdn Bhd) ("Starken Drymix"), Sage Evergreen Sdn Bhd ("Sage Evergreen") and G-Cast UHPC Sdn Bhd (formerly known as Diva Victory Sdn Bhd) ("G-Cast UHPC"). The balance of additional increase was due to the stamping fee incurred for new banking facilities secured and the share transfer during the acquisition of Midah Industries, Epic Diversity, MI Polymer Concrete Pipes Group of companies and Atlantic Blue and the additional headcount cost for the capacity expansion.

Share of associate company's profit of RM2.62 million for the current year were derived majority from the total Feed In Tariff of 3.24 MW, off-grid and on-grid solar PV systems for small to medium-scale solar projects (up to 1 megawatts or MW), 10MW of large scale solar photovoltaic ("LSSPV") plant projects. One of its landmark project is the 12MW LSSPV plant on ground-mounted solar PV panels located at Bukit Kayu Hitam, Kedah, the first large scale solar project commissioned in Malaysia.

The Group recorded a lower profit before tax of RM39.46 million as compared to the preceding year corresponding period of RM51.17 million. The lower profit before tax was mainly due to the RM10.57 million fair value adjustment on the investment properties in the FY2016. Besides, there was a considerable losses before tax suffered by our steel mesh and metal roofing products segment of RM5.91 million in FY2017 after the adjustment of RM2.30 million on the fair value adjustment on investment properties located at Nilai. The huge losses took place after the imposition of definitive safeguard duties and steel tariff totalling 18.9% by the Ministry of International Trade and Industry (MITI) on imported steel wire rods which has caused the local wire rod price to increase significantly and situation worsening further where some steel producers even selling their mesh finished product lower than their raw wire rod price. The lower contribution from the distribution of building material and ready-mixed concrete business has also pulled down the Group's profitability. However, these negative impacts were set off by the strong contribution from the manufacturing of AAC blocks, precast concrete products, fire rated door products and the solar related income generated from the associate company.

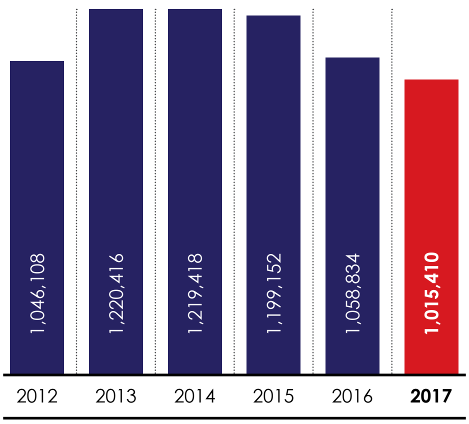
The Group's effective tax rate was 24.95% in FY2017 which was higher than the 19.04% in FY2016 mainly due to the under provision of corporation tax and deferred tax of RM0.23 million and RM1.07 million respectively in the prior year and the share of taxation for the newly acquired associated company of RM0.42 million.

During the current financial year under review, the Group has also qualified for a reinvestment allowance for the hefty sum of investment in capital expenditures as a results of capacity expansion for concrete pipes and mesh business. Besides, the Group still possessed a considerable amount of unabsorbed capital allowances carried forward and unabsorbed business losses carried forward.

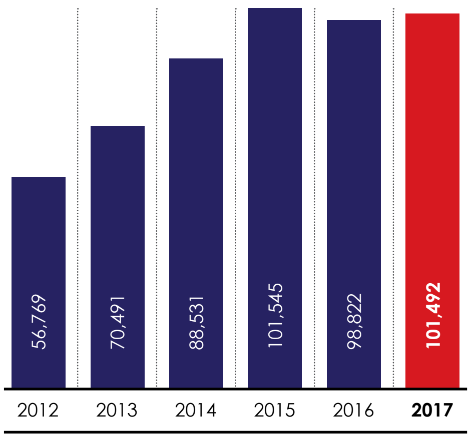
Through the utilisation of the total proceeds of RM65.65 million raised from the private placement completed on 29 September 2017 via the issuance of additional 50,500,000 new ordinary shares at the issued price of RM1.30 per share ("Private Placement"), the Group has further pared down its debts and hence reduced its debt to equity ratio to 0.96 times. The insignificant reduction of debt to equity ratio was mainly due to the drawdown of additional RM41.86 million Term Loan, of which RM40.60 million was used to finance the capital expenditures for the second AAC plant in Kota Tinggi, Johor and the balance was expended to fund the acquisition of a piece of one acre leasehold industrial land held under title Lot PT47840 located at Mukim Simpang Kanan, Batu Pahat, Johor adjacent to the existing MI Polymer Concrete Pipes (MIPCP) plant for the construction of another new plant with production capacity of 20,000 tonnes per annum. Besides, the Group has also drawn down additional revolving credit facility of RM50.30 million as working capital for its AAC block business which was reflected in the net changes in bankers acceptance, revolving credits and trade financing.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

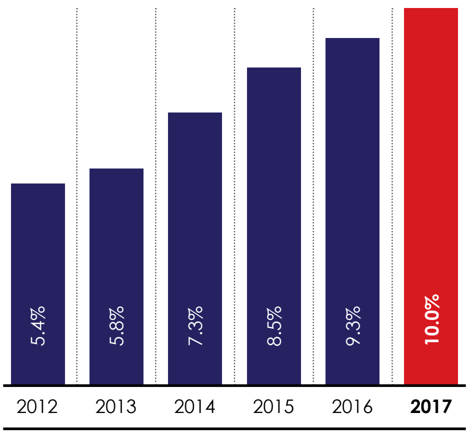
REVENUE (RM'000)



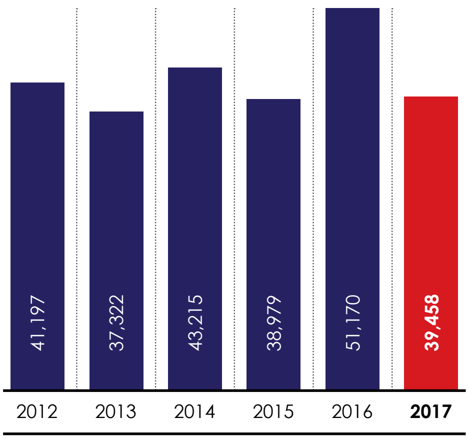
GROSS PROFIT (RM'000)



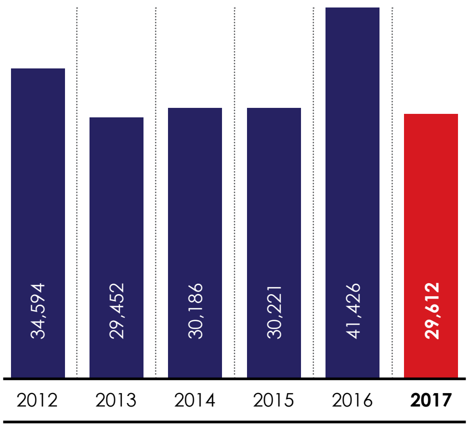
GROSS PROFIT MARGIN (RM'000)



PROFIT BEFORE TAXATION (PBT) (RM'000)



PROFIT AFTER TAXATION (PAT) (RM'000)



MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

The Group's order book presently stands at RM497.29 million, which will keep the Group busy for the next 1 – 1 1/2 years. Growth in the order book stems particularly from the provision of solution segment such as design, engineering, manufacturing and construction of Modular unit cum Prefabricated, Prefinished Volumetric Construction (PPVC) Solutions.

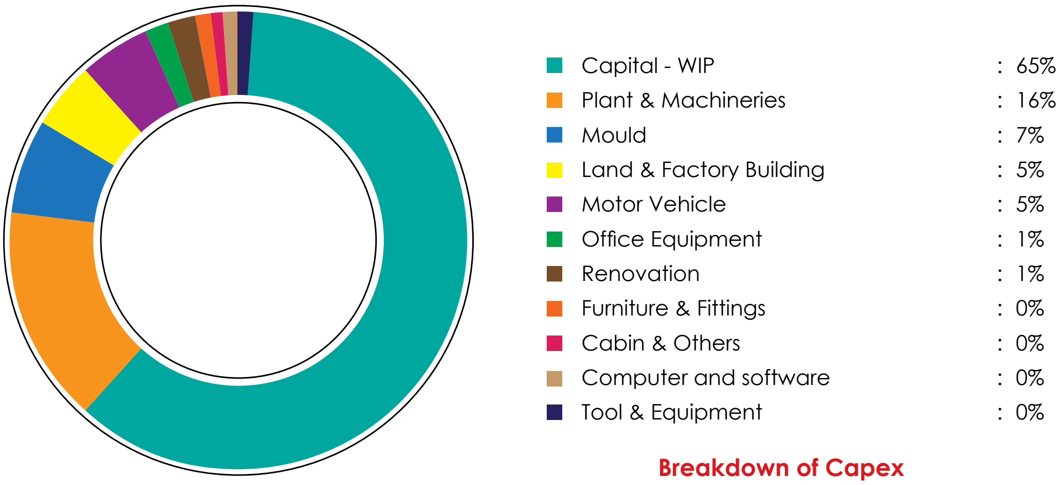
ORDER BOOK

Order Book	FY 2017 (RM)
G-Cast Concrete Sdn Bhd	66.71 million
Starken AAC Sdn Bhd	53.96 million
Metex Steel Sdn Bhd	41.99 million
Midah Industries Sdn Bhd	16.38 million
Chin Hin Concrete (KL) Sdn Bhd	56.16 million
Chin Hin Concrete (North) Sdn Bhd	10.76 million
MI Polymer Concrete Pipes (S) Pte Ltd	13.00 million
Metex Modular Sdn Bhd (PPVC)	238.33 million
Total	**497.29 million**

CAPITAL EXPENDITURE

Robust Capital Expenditure	Breakdown of Capex (RM)
Land & Factory Building	5,260,259
Plant & Machineries	16,676,682
Capital - WIP	66,721,622
Mould	6,685,862
Motor Vehicle	5,131,883
Furniture & Fittings	216,495
Office Equipment	553,693
Renovation	496,893
Computer and software	196,403
Cabin & Others	86,020
Tool & Equipment	21,555
Total	**102,047,367**

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)



Breakdown of Capex

In FY2017, 93% of total capital expenditure incurred was due to outlay on land & building, capital work in progress (WIP), mould and plant & machineries, mainly to extend the production capacity of the manufacturing plants. Of this, 5% were spent on land & factory building, 16% were for plant & machineries, 65% were for capital work in progress and 7% were for moulds.

Major land and factory building expenditure were:-

- The Company had spent RM1.22 million on site clearing, earthworks and ancillary works on the 50.6 acres of freehold land located at Mukim of Kota Tinggi, Daerah Kota Tinggi for the construction of new AAC block & panel plant; and

- The Company had spent additional RM4.00 million to construct G-Cast Concrete Sdn Bhd ("G-Cast")'s new plant at Bidor, Rawang and Kulai, allowing us to expand our customer base and address the rising demand for precast concrete product.

Major Capital - WIP (work in progress), mould and plant & machineries expenditure were:

- The Company had spent RM18.54 million to construct the AAC block & panel plant at Kota Tinggi, Johor. The AAC plant is targeted to commence its operations in the mid of second quarter of 2018;

- During the year 2016, the Company has ordered a new machine line for AAC block and wall panel product from Wehrhahn GmbH, a German-based counterpart. This new machine which is valued at EUR 4.98 million (approximately RM24.32 million) with an installed production capacity of 600,000 meter cube were delivered and installed at the AAC second factory in Kota Tinggi, Johor in 2017, will enable Chin Hin to expand into the overseas markets, especially in the Asia Pacific region. The Group has progressively booked in RM15.87 million for Wehrhahn GmbH machine in FY2017. Besides, the Company has incurred an additional RM21.14 million for other plant and machineries & factory equipment under construction to be installed at this factory;

- RM8.69 million was spent for the acquisition of the world's latest wide body, fast speed CTS welder, MG800 from Schlatter Industries AG of Switzerland, Koch-2 drawing machine and Koch-3 mesh wire rolling line for the Nilai mesh factory;

- Setting up of dry mortar mixing plant for Starken Drymix at RM0.94 million, a new start-up company;

- Acquisition of concrete batching plant, wire cage machine, spun pipe machine with shaft, gantry crane, round railway structure, concrete travelling hopper, butt ended pipe mould, loader, girder cranes, grinder electric crane, pipe demoulding steel structure, slewing jib cranes, storage railway and forklift amounting to RM7.85 million for G-Cast's new concrete plants located at Kulai, Rawang, Bidor and Kota Tinggi as well as for its existing plant at Serendah;

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

- Acquisition of 1 unit of Rotoconix 1500 mixer, 1 unit of concrete batching wet plant, 1 unit of 60 tonnes cement silo, 1 unit of Skako concrete mixer control panel, 4 units of 10T electric overhead travelling cranes, 1 unit of 6.3T electric overhead travelling crane at the total cost of RM2.70 million for the setting up of high and ultra-high performance concrete manufacturing plant in Subang Jaya.

- 1MW of solar power panel installed at the Serendah AAC factory worth RM5.27 million.

- Acquisition of 1 unit of casting machine and 1 unit of forklift at a total cost of RM0.84 million for the new MI Polymer concrete plant in Kulai.

- Acquisition of new moulds of RM6.69 million for G-Cast's concrete plants located at Kulai, Rawang, Bidor and Kota Tinggi and Serendah; and

- The Company had spent RM0.89 million on 1 unit of wheel loader, forklift, single girder overhead crane and air cooled for chiller for AAC block and panel plant at Serendah.

Statements of Cash Flows

	2017 RM'000	2016 RM'000	Variance
Net Cash Inflows from Operating activities	38,937	6,018	>100%
Net Cash Outflows for Investing activities	(134,932)	(51,788)	<100%
Net Cash Inflows/(Outflows) for Financing activities	73,938	(50,959)	>100%
Net decrease in cash balance	(22,057)	(96,728)	77%
Cash balance at beginning of the year	69,353	165,883	-58%
Cash balance at end of year	47,073	69,353	-32%

The Group's net cash inflows from operating activities for the FY2017 increase by RM32.92 million, largely due to the repayment of hire purchase loans totalling RM5.29 million by the borrowers of the money lending business carry out by a subsidiary of the Company and better management of the Group's cash flow.

Cash outflows from investing activities recorded a net outflow of RM134.93 million mainly due to :

- Acquisition of the entire issued and paid up share capital in Midah Industries and Epic Diversity for an adjusted consideration of RM17.08 million pursuant to the terms of the Shares Sale Agreement ("SSA");

- Acquisition of the entire issued and paid up share capital in MIPCP for an adjusted consideration of RM29.64 million pursuant to the terms of the SSA;

- Acquisition of 45% stake in Atlantic Blue for a total consideration of RM24.75 million;

- The capital expenditures spent on property, plant and machineries, factory building & plant and machineries under construction, moulds, tools & equipment and motor vehicles of RM102.05 million especially for Starken AAC Sdn Bhd ("Starken AAC") second plant in Kota Tinggi, G-Cast Concrete Sdn Bhd's new plants in Bidor, Rawang, Kulai and Kota Tinggi, MIPCP's second plant, Metex Steel Sdn Bhd's MG 800 machine, G-Cast UHPC and Starken Drymix.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Statements of Cash Flows (cont'd)

The net cash inflows for financing activities of RM73.94 million, mainly stemmed from the Private Placement which has managed to raise RM65.65 million and drawdown of additional RM41.86 million term loan, majority used to finance the Capital Expenditures for the second AAC plant in Kota Tinggi, Johor. In addition, the Group has also drawn down a new revolving credit of RM50.30 million as the working capital for AAC business which was reflected in the net changes in bankers acceptance, trust receipt and revolving credits. However, the net cash inflows were offset by the payment of RM21.25 million dividend paid to our shareholders during the year and the pared down of existing term loan of RM26.04 million coupled with the reduction of hire purchase liabilities of RM3.79 million.

Statements of Financial Position

	2017 RM'000	2016 RM'000
ASSETS		
Non current assets	510,572	365,065
Current assets	457,304	455,376
TOTAL ASSETS	967,876	820,441
EQUITY AND LIABILITIES		
EQUITY		
Share capital	325,796	252,944
Share premium	-	7,656
Merger reserve	(153,192)	(153,192)
Foreign currency translation reserve	313	545
Revaluation reserve	8,768	8,769
Retained earnings	217,866	207,592
Equity attributable to owners of the Company	399,551	324,314
Non-controlling interests	764	-
TOTAL EQUITY	400,315	324,314
LIABILITIES		
Non current liabilities	73,629	43,084
Current liabilities	493,932	453,043
Total liabilities	567,561	496,127
TOTAL EQUITY AND LIABILITIES	967,876	820,441
Net assets per share attributable to ordinary owner of the company	RM0.72	RM0.64

In FY2017, total assets of the Group increase by RM147.44 million to close the year at RM967.88 million. The increase was mainly due to the goodwill arising from the acquisition of MIPCP (RM19.07 million) and Midah Industries & Epic Diversity (RM11.88 million). Besides, the increase also contributed by the new investment in an associate company, Atlantic Blue with its share of profit earned during the year totalling RM26.95 million and the acquisition of property, plant and equipment, net of depreciation of RM87.50 million for capacity expansion especially in the manufacturing segment.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Statements of Financial Position (cont'd)

Total equity has increased by RM76.00 million, mainly due to enhancement of share capital via the Private Placement. As at 31 December 2017, the proceeds of RM65.65 million raised from the Private Placement were utilised by the Group as follows :

	Details	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance Available for Utilisation RM'000
(a)	Construction of new manufacturing and operation facility in Kota Tinggi, Johor	12,000	1,591	10,409
(b)	Expansion of existing manufacturing facilities and purchase of new equipment and machineries for plant Rawang, Selangor	6,200	4,225	1,975
(c)	Expansion of existing manufacturing facilities, purchase of new equipment and machineries for the plant at Batu Pahat, Johor as well as undertaking related product testing, certification and related works for its products	2,693	1,143	1,550
(d)	Repayment of bank borrowings	23,600	23,600	-
(e)	Future expansion plans	10,000	10,000	-
(f)	Working capital purposes	9,757	4,746	5,011
(g)	Estimated expenses for the private placement exercise	1,400	535	865
	Total	**65,650**	**45,840**	**19,810**

Retained earnings has increased by RM10.27 million as a result of current year net profit attributable to owners of the parent company of RM29.75 million after net of the total dividend declared and paid during the year of RM19.47 million.

On the liabilities side, total liabilities increased by RM71.43 million, mainly due to drawdown of additional RM41.86 million Term Loan, of which RM40.60 million was used to finance the capital expenditures for the second AAC block plant in Kota Tinggi, Johor and the balance was channelled to fund the acquisition of a piece of one acre leasehold industrial land held under title Lot PT47840 located at Mukim Simpang Kanan, Batu Pahat, Johor adjacent to the existing MIPCP plant for the construction of another new plant. There was a drawdown of RM50.30 million revolving credit as working capital for AAC block business. During the year the Company has pared down the term loan of RM26.04 million.

The net assets per share has improved by RM0.08 or 12.02% due to the increase in net operating profit of RM10.27 million after netting off the first single tier interim dividend of RM11.13 million paid on 13 October 2017, second single tier interim dividend of RM8.35 million paid on 16 April 2018 and the enlarged issued paid up share capital of RM65.65 million via Private Placement.

Internal Business Strategy

We continued to pursue internal improvements across the Group through revamping processes and systems via the introduction of automation to increase efficiency, reduce manual operations, cost reduction and enhanced quality. The Group aim to achieve manufacturing excellence i.e. maximum production capacity with minimum downtime. The implementation of Customer Relationship Management (CRM) solutions in all the business unit are on track.

With regard to quality initiatives, Chin Hin has put in place as a requirement to acquire its quality accreditations, namely the ISO 9001 (Quality Management Systems) and ISO 14001 (Environmental Management Systems) standards for all the manufacturing plants. Chin Hin always committed to conduct all its business activities as a reliable and safe organisation that take care and control the impact of the environment. The Group has also set a clear Key Performance Indicator to establish an optimum target cycle time in order to ensure consistent delivery time to customers.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Internal Business Strategy (cont'd)

At Chin Hin, we cognisant our employees drive our success. For the year under review, high-calibre talents whom have proven themselves for excellence performance, which were mentored by the present senior leader were being promoted to the position of director (2 staffs), senior general manager (1 staff), assistant general manager (2 staffs) and senior manager (4 staffs). As Chin Hin is aggressively expanding its business locally and internationally, the Company is persistently hunting for talent to fill the gap. The Company has also identified twenty potential candidates in the group to undergo the Business Leaders Development Programme (BLDP) training to nurture them to be the future leaders. The Company aims to develop a bottom-up leadership culture, transforming from boss into leadership culture by engagement through Townhall Meetings so that we get full engagement commitment. This in return will provide an inspiring & a stimulating working environment for health, well-being for a balanced lifestyle. Our new work environments cater for an inspiring and stimulating work environment for a "happy" workplace culture. The Group also is very committed to fostering loyalty and efficient workforce by providing an effective & fair appraisal and reward system. This also will give birth to a learning & knowledge based culture and provide clear career paths for development & advancement including Succession Planning.

Chin Hin has launched its "Brand Transformation" during its annual dinner held in January 2018 with a clear roadmap set for the next five years to align all the members of Chin Hin to achieve the organisation goal established. Chin Hin aim to be the "Most preferred, trusted and admired total solutions provider and partner to the building materials and construction industry in ASEAN".

The Company value its customers experience with them and regularly hold active customer dialogue and engagement sessions to better add value to their customers' transactions. Chin Hin's sales personnel are well trained so that they hold a firm grasp on product knowledge, understanding customer needs, level of service and providing solutions.

"Brand Transformation" Launching during Chin Hin 2018 Annual Dinner

SEGMENTAL OVERVIEW

Distribution of Building Material and Provision of Logistics Services

The distribution of building material and provision of logistics services sector recorded a total revenue of RM625.07 million in FY2017, a decline of 11.77% as compared to RM708.45 million recorded in the previous year and contributed 61.56% of the Group's consolidated revenue. The decline in revenue was due to the decrease in sales volume of cement by approximately 21.12% as a result of further slowdown in housing construction activities in 2017 and the impact of cement manufacturers selling direct-to-customer (DTC). Majority of the large cement producers in Malaysia have posted four consecutive quarterly losses due to the impact of over supply of cement as a result of extra production capacity coupled with the effect of slowdown in the property market. As a result, the cement market contracted by 6% in 2016 and is forecast to contract by a further 8% to 9% in 2017, according to the Cement and Concrete Association of Malaysia. To ensure survival as a result of further price pressure and intensifying competition faced by the large cement producers, they have began to sell direct-to-customer.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

SEGMENTAL OVERVIEW (cont'd)

Distribution of Building Material and Provision of Logistics Services (cont'd)

The considerable decrease in revenue was also attributed to the decline in sales volume of other building materials by approximately 3.60%. However, these negative impacts were offset by the increase in steel bar sales of 23.88%, taking advantage of the massive steel price fluctuation during the year. Besides the decrease in revenue from distribution of building materials, gross profit margin has also marginally decreased from 7.23% in FY2016 to 7.13% in FY2017.

There was a considerable decrease in profit before tax of RM16.91 million in FY2017 as compared to FY2016 was in line with the decrease in revenue during the current financial under review. Further, the decrease was also due to the one-off fair value adjustment of RM10.57 million from its investment properties and the gain on disposal of investment properties and motor vehicles of RM2.01 million recorded in FY2016. It also due to the loss of rental income in 2017 as a result of disposal of eleven (11) units of tankers in year 2016.

Ready-Mixed Concrete

The total revenue for the ready-mixed concrete segment decrease by approximately RM37.00 million or 26.76% from RM138.25 million in FY2016 to RM101.25 million in FY2017 and contributed 9.97% of the Group's consolidated revenue. The ready-mixed concrete segment recorded a profit before tax of RM3.13 million, a massive decline of approximately 56.83% from RM7.25 million in FY2016. The considerable decrease in revenue and margin from the ready-mixed concrete segment was mainly due to the stiff competition encountered from cement-based-operators using their own batching plant to penetrate the market by offering lower selling prices to undercut as a result of the glut supply of cement in the local cement industry. The drastic plunged in profit before tax also due to the drop in volume of approximately 66,070 m^3 or 61.58% of the southern region as a result of our decision to move out entirely from that region. The "move-out" decision was made as there has been a visible slowdown in the southern region's property market.

Manufacturing Sector

Manufacturing of fire-rated door

The manufacturing of fire-rated door segment recorded a revenue of RM28.72 million with profit before tax of RM3.73 million. Based on the unaudited results of Midah Industries and Epic Diversity for the financial period ended 31 October 2017, the total profit guarantee of RM3.00 million profit before tax has been fulfilled by the previous owners of Midah Indutries and the Epic Diversity, respectively.

Further to the above, PP Chin Hin Sdn Bhd, a wholly own subsidiary of Chin Hin Group has via its letter dated 30 November 2017 agreed to waive the requirement for the previous owners of Midah Industries and Epic Diversity to fulfil the total profit guarantee of RM3.00 million for the financial year ending 31 December 2018 ("FY2018"), as the Group are confident that both Midah Industries and Epic Diversity will be able to achieve its profit guarantee for FY 2018 with the fire door order books on hand of RM16.38 million as at 31 December 2017.

Manufacturing of Autoclaved Aerated Concrete ("AAC") and Precast Concrete

The manufacturing of AAC and precast concrete segment recorded a total revenue of RM183.56 million in FY2017, representing a growth of 47.27% as compared to RM124.64 million recorded in FY2016 and contributed 18.08% of the Group's consolidated revenue. This sector recorded a profit before tax of RM22.14 million, representing an increase of 55.04% as compared to RM14.28 million in FY 2016.

The increase in revenue and profit before tax for AAC block was mainly due to the rising number of projects specified by local consultants as the usage is gaining traction ahead of the mandatory adoption of Industralised Building Material (IBS) system in Malaysia by 2020. The increase in the Group's gross profit margin was mainly contributed by the benefit derived from economies of scale enjoyed by the AAC block plant located in Serendah as evidently presented in the gross profit margin hike i.e. 21.03% in FY2017 from 10.67% in FY2016.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

SEGMENTAL OVERVIEW (cont'd)

Manufacturing of Autoclaved Aerated Concrete ("AAC") and Precast Concrete (cont'd)

The increase in both revenue and earnings for precast concrete were due to increase in production capacity from Kulai, Bidor and Rawang plants to fulfil the delivery of jacking pipes and manholes for Langat Sewerage Project, Centralised Sewage Treatment Plant and the Sewerage Project at Daerah Kinta, Perak. The gross profit margin for precast concrete has declined by 3.63% due to the substantial increase in steel price during the year versus the locked in project selling price for jacking pipes.

Based on the latest audited financial statement of MIPCP for the FY2017, MIPCP have recorded a revenue of RM10.07 million with the adjusted consolidated profit after tax of RM0.57 million, represented a profit shortfall of RM5.43 million. However the profit shortfall has been further adjusted downwards by RM0.07 million to RM5.36 million due to the reversal of bonus over-accrued for staffs employed effective FY2018. Pursuant to the Conditional Shares Sale Agreement dated 3 April 2017 entered into between the MIPCP Vendors and Starken AAC, the MIPCP Vendors have agreed to provide a profit guaranteed of RM6.00 million profit after tax to Starken AAC for the FY2017. The profit shortfall was mainly due to the deferred in the delivery of sewerage polymer pipes as a result of the delay of the multiple projects in Singapore. Besides, there was a change in European standard for Singapore's polymer concrete pipe from DIN standard to BS EN 14636-1:2009 standard effective from June 2017 which has resulted in a hefty sum of RM0.58 million being spent for the new standard testing to comply with the durability requirement of 100 years. Pursuant to the Shares Sale Agreement, the Shortfall will be offset against the Retention Sum of RM6.00 million to be paid by the Company to the previous shareholders of MIPCP.

During the financial year, the Starken Group has charged out pre-operating expenses of totalling RM1.62 million for the newly set-up companies i.e. Green Cement, Starken Drymix, G-Cast UHPC and Sage Evergreen.

Manufacturing of Steel Mesh and Metal Roofing Systems

The segment for the manufacturing of steel mesh and metal roofing systems recorded a total revenue of RM174.18 million in FY 2017, representing an increase of 15.35% as compared to RM151.00 million recorded in FY2016, and contributed 17.15% of the Group's consolidated revenue. This sector recorded a loss before tax of RM5.91 million after the adjustment of RM2.30 million on the fair value adjustment on investment properties located at Nilai, representing a decrease of RM11.07 or 214.95% as compared to RM5.15 million profit before tax in FY2016. The considerable losses suffered by our steel mesh products in FY2017 was mainly due to the imposition of definitive safeguard duties and steel tariff totalling 18.9% by the Ministry of International Trade and Industry (MITI) on imported steel wire rods which has caused the local wire rod price to increase significantly and situation worsen where the competitors offer lower selling prices to undercut especially for standard mesh products.

Prospects

Manufacturing and Trading Sector

The Group has actively expanded the production capacity of its AAC block, precast concrete and steel mesh in 2017 by setting up more plants and additional production line locally to strengthen its product presence and customer portfolios.

Precast concrete production capacity has bumped up by 50% to 300,000 metric tonnes in 2017 after the rolled out of three new plants at Kulai (10 acres of a leased industrial land), Bidor (18.55 acres of leasehold industrial land) and Rawang (18 acres of a leased industrial land) to accommodate the surging demand from the sewerage and infrastructure sectors. 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. The enlarged capacity enables Chin Hin to make further inroads into large-scale infrastructure projects, particularly within the railway sub-sector. The Group are optimistic on precast concrete sewage order replenishment going forward in the state of Kedah, Pahang, Terengganu and Kelantan which have yet to migrate to the new licensing regime in line with the Water Services Industry Act (WSIA) under the 11th Malaysia Plan.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Prospects (cont'd)

Manufacturing and Trading Sector (cont'd)

The acquisition of MIPCP with the main objective to fill the gap in Chin Hin's sewage product range, which is smaller sewage pipes with diameters of less than 450mm. It completes the missing link for Chin Hin to become the first integrated sewerage producer in ASEAN, providing a whole range of sewerage solutions. However, the performance of MIPCP was significantly below expectation after the acquisition, mainly due to the delays in kicking off of the project secured earlier of the year from Singapore which might possibly cause by the change in European standard from DIN standard to BS EN 14636-1:2009 standard effective from June 2017. Chin Hin foresee MIPCP's performance to be improved in 2018 in view of those delayed projects has started to kick off in the second quarter of 2018. The second plant costing RM2.00 million, which is adjacent to the current facility will double its production capacity to 40,000 tonnes and is expected to commence its operation in the second quarter of 2018. The extra capacities are predominantly for the Singapore's market. After Singapore, the Group is eyeing frontier markets such as Indonesia, Philippines and Myanmar. MIPCP has applied for its products to be certified by IKRAM and once approved, will put Chin Hin in an appropriate position to break into Malaysia's market, which is currently dominated by clay pipes. Chin Hin is confident to break the clay pipes market since polymer concrete pipes are designed to withstand the required loading using pipe strength at the end of 100 years.

The Group project 1.26 times jump in total capacity for Starken AAC from 475,000 m^3 to 1,075,000 m^3 once Kota Tinggi, Johor plant kicks off by the middle of the second quarter of 2018. This new plant will address the bottleneck for AAC blocks (high adoption rate in the market) since the existing Serendah plant is running at its full capacity. The capacity enhancement is timely, as the AAC blocks and panel are gaining footing ahead of the mandatory adoption of IBS in Malaysia by 2020. Approximately half of the 600,000 m^3 Kota Tinggi plant (installed capacity) will be used to meet the growing demand for higher margin wall panels which is approximately 1.5 times better margin than its AAC blocks. AAC panel has gained popularity in Singapore especially by the Housing and Development Board (HDB) for its unique features such as light weight, no skim coating needed, excellent thermal insulation, user-friendly and more importantly the labour cost saving of at least 30% as compared to other type of panel in the market.

AAC Block Second Plant at Kota Tinggi

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Prospects (cont'd)

AAC Block Second Plant at Kota Tinggi (cont'd)

The world's latest wide body, fast-speed CTS welder, MG 800 from Schlatter Industries AG of Switzerland, which was installed at our Nilai's steel mesh plant has commenced the production in the second quarter of 2017. However, the performance of mesh business was far beyond expectation after the imposition of definitive safeguard duties and steel tariff totalling 18.9% by the Ministry of International Trade and Industry (MITI) on imported steel wire rods which has caused the local wire rod price to increase significantly. To stay away from direct competition with those steel producers on standard mesh products, we have strategised to emphasise on the niche market for provision of special mesh and cut-to-size (CTS) which require more technical skill. Moreover, Chin Hin has also strengthened its purchasing function to hedge the wire rod price to eliminate the risk of steel price fluctuation in order to turn around the Company.

Fast-speed CTS Welder, MG 800 Machine at Nilai Mesh Plant

On September 2016, Chin Hin had entered into two separate conditional shares sale agreements ("SSA")for the acquisition of the entire issued and paid up share capital in Midah Industries and Epic Diversity for a total consideration of RM17.08 million. The said acquisitions were completed on 31 March 2017 and both Midah Industries and Epic Diversity is now an indirect wholly-owned subsidiaries of Chin Hin. From the earnings standpoint, both companies are immediately income generating, and fit in nicely with Chin Hin's vertical integration strategies. Midah Industries is considered one of the top five players in the fire door business. Chin Hin intends to expand its fire door manufacturing business to accommodate its geographical expansion into the northern and southern regions of Peninsular Malaysia as well as East Malaysia.

Epic Diversity is a trading company which supplies various types of high-quality door locks and specialises in the planning and implementation of ironmongery packages for commercial, industrial as well as residential properties. At this juncture, Epic Diversity sells 90% of its products to Midah Industries to complement the fire door business. Chin Hin has plans to broaden its products and services by extending the ironmongery business into an independent brand which can sell directly to contractors and retailers.

G-Cast UHPC, an indirect subsidiary of the Company had on 12 October 2017 entered into an Assets Purchase Agreement ("Agreement") with FRUHPC Concept Sdn. Bhd. ("FRUHPC") for the acquisition of assets relating to the manufacturing of the high and ultra-high performance concrete for a total cash consideration of RM2.92 million. The rented UHPC manufacturing plant located in Subang Jaya has commenced its production in November 2017. G-Cast UHPC will concentrate widely on the provision of architectural solutions using ultra-high performance concrete's (UHPC) with compressive strength, flexural strength and durability exceed all other high performance concretes and it is a long-lasting concrete since no carbonation process will take place in it. Sales are expected to grow progressively in the second quarter of 2018 when more UHPC architectural solution projects are kicking off.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Prospects (cont'd)

UHPC Bangsar Project - Curvy UHPC Façade to Replace Aluminium Composite Panels (ACP)

Chin Hin has over the years cut back its dependence on the cement sector. It has broadened its product base to include the trading of other building materials e.g. plywood, timber, shera roofing, shera plank wood, Beger paint, Roxsil silicone paint and steel reinforcement bars. Chin Hin has also fine-tuned its distribution business model, targeting products with a low volume but fetching at higher margins.

Chin Hin will still be actively widened its product portfolio and diversify its income stream through organic growth synergistic with its existing businesses. An example of organic growth companies during the year include Starken Drymix, G-Cast UHPC and Green Cement.

Solar Power Generation Income

The Group continues to record the Green Technology Solar Panel (Feed in Tariff) gross income of RM2.91 million in the FY2017 from its electricity production capacity of 2,425 kilowatts per hour ("kWh").

Chin Hin had in August 2017 completed the acquisition of 45% stake in Atlantic Blue for a total consideration of RM24.75 million. Atlantic Blue is one of the leading turnkey Engineering, Procurement and Construction (EPC) solution providers that specialises in large-scale solar (LSS) farming and the provision of solar photovoltaic (PV) solutions. In 2017, Atlantic Blue managed to secure a project to provide full EPC services for the construction of a solar farm in Bukit Kayu Hitam in Kedah. The 12MWp Direct Current (DC) capacity solar plant is one of the first large-scale solar projects under the Large-Scale Solar Photovoltaic ("LSSPV") programme initiated by the Energy Commission of Malaysia to encourage the construction of large-scale grid-connected solar PV plants with capacities of 1MW to 50MW. The scope of work for the project involves providing full fledge engineering services from design to engineering to procurement and construction. Atlantic Blue was also responsible for operating and maintaining the solar PV plant for a period of two (2) years. In addition, Atlantic Blue also secured two (2) large projects to provide sub-contracting work worth a total value of RM34.00 million to be completed in 2019; namely:

- 65MWp solar farm in Gurun, Kedah for Quantum Solar Sdn Bhd; and
- 61MWp solar farm in Gambang, Pahang for UiTM Holdings Berhad.

Renewable energy (RE) is considered to be an important driver for low carbon growth and sustainable solution to issues related to electrification in remote locations. Due to carbon emissions and fuel related concerns in conventional sector, Government has shifted focus towards development of renewable energy sources. Increasing renewable resources will help economy in achieving energy security, reducing adverse environmental impact, lowering the carbon intensity and realizing its aspirations for leadership in high-technology industries by contributing to a more balanced regional and global development.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Prospects (cont'd)

Solar Power Generation Income (cont'd)

Malaysia has targeted to connect 1250 MW or 11% of RE in 2020, there are 550 MW or equivalent to RM2,000 million worth of solar projects to be issued every year until 2020. Atlantic Blue being one of the top solution providers (18 active domestic solar project operators) is gaining about 15% market share which is around 130MW- 150MW a year. Atlantic Blue is expected to ride on this 20.18% industry Compounded Annual Growth Rate (CAGR) and continue to win projects in Malaysia for Independent Power Producer (IPP) solar farm projects and Commercial & Industrial solar projects.

Global solar manufacturing and installed projects are the fastest growing RE. It continues to grow at 5% CAGR, and will continue to reduce solar energy price, it makes solar energy the cheapest energy than coal energy for IPP model or industrial self-consumption. Atlantic Blue is expecting the Malaysia industrial market to take advantage of the Green Investment Tax Allowance (ITA) and Income Tax Exemption (ITE) tax incentives offered by Malaysia government until 2020, to install solar energy into their manufacturing plant. The tax incentives are open to local companies and Foreign Direct Investment (FDI) company.

The solar photovoltaic (PV) industry, which registered a revenue of RM20.81 billion and created 17,861 jobs last year, is a new source of growth for Malaysia. Atlantic Blue has grown from 4 staffs to around 100 staffs now, from own installation team to sub-contracting to 15 subcontractors as of to date. Total solar energy plant built by Atlantic Blue is 45MW which equivalent to planting of 33,500 trees in Malaysia, powered up 7,500 houses with solar energy, or taken off 81,600 cars off the road every year. This greatly offsets 45,000 tonnes of carbon footprint annually.

Over the years, Atlantic Blue has received a number of awards from various organisations recognising of their efforts in the industry. Previous awards won by them include the ASEAN's Most Recognised Brand for Solar Photovoltaic Service Provider during the ASEAN Outstanding Business Awards in 2015, Golden Eagle Award in 2015, SME100 Annual Recognition Award in 2015, Sin Chew Business Excellence Award 2016 as well as the Star Outstanding Business Award in 2016.

12MWp DC Capacity Solar Plant in Bukit Kayu Hitam in Kedah

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Prospects (cont'd)

65MWp Solar Farm in Gurun, Kedah

Prefabricated Modular Building System ("PMBS")

To move ahead of our competitors, Chin Hin had on November 2017 ventured into the business of modular units. Chin Hin Group via its subsidiary, Metex Modular Sdn Bhd ("Metex Modular"), has successfully secured a fast-track project worth RM238.3 million in December 2017 to build an integrated workers complex with comprehensive facilities in Mukim Pengerang, Daerah Kota Tinggi, Johor. This project incorporates Pre-fabricated Modular Building System ("PMBS"), the highest level of Industrialised Building System ("IBS"). Chin Hin Group has teamed up with a technology partner to implement this IBS in Malaysia over a contract period of 12 months.

The PMBS involves the Design for Manufacturing and Assembly (DfMA) concept to significantly improve construction productivity whereby pre-fabricated units are built at the factory and ready to be installed on site. As a result, this IBS model speeds up construction processes and reduces construction time and labour. PMBS creates synergies with our Group as 70-80% of building components and materials used are supplied-in house, such as ready-mixed concrete, cladding systems, AAC wall panels, pre-cast concrete products, wire mesh products, fire doors, lock sets and paint. The investment in PMBS is part of Chin Hin's move to transform its business from the provision of building materials towards being involved with Civil & Structural product technology innovation, and we believe that this challenging project will be completed on time and contribute positively to the Group's earnings in 2018.

Metex Modular's Factory at Kulai Jaya, Johor

Construction Site at Mukim Pengerang, Daerah Kota Tinggi, Johor

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Future Outlook

2018 is expected to be a promising year for the Malaysian economy. Last year, the Malaysian economy grew vibrantly at an average real growth rate of 5.9% in the first three quarters led by strong domestic demand and rising strength in global trade. The momentum is expected to continue this year. Several international organisations, including the World Bank and the International Monetary Fund, have projected Malaysia's economic growth to sustain within the range of 5.5% and 5.8% this year. The growth is expected to be largely driven by domestic demand, particularly in the private sector, supported by stable labour market conditions and continued income growth. Investments with sustained flows of infrastructure projects and capacity expansion in major sectors of the economy such as mining and construction, services, and manufacturing are also expected to induce economic expansion on the production side.

Malaysia holds the strong Foreign Direct Investment and trade prospects owing to its mega infrastructure plans such as the high-speed rail, East Coast Rail Link (ECRL), and China's One Belt One Road Initiative, as well as its strong bilateral ties with major economies such as China, the United States, Saudi Arabia, India, and Japan. Multi-regional economic links such as the Regional Comprehensive Economic Partnership and the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership are further expected to boost foreign investments in the country.

According to the Malaysian prime minister's 2018 budget speech, the 14 business memoranda of understanding (MoU) signed between Malaysia and China, and 31 MoUs between Malaysia and India in 2017, for instance, are expected to bring about a total of RM302.4 billion (US$75.8 billion) worth of investments into Malaysia.

The continued drive of the government's mega infrastructure and affordable housing projects such as *Perumahan Rakyat 1Malaysia* (PR1MA), People's Housing Programme (PPR), People's Friendly Homes (PMR), My Beautiful New Home (MyBNHomes) etc. are set to spur the Malaysia's construction industry in the immediate term. The deployment of these projects will strengthen the growth in the demand for building materials. Chin Hin is looking to re-position itself ahead of a new wave of infrastructure spending, in which some RM200 billion worth of big-ticket projects are scheduled to take-off within the next few years such as Light Rail Transit Line 3 "LRT3" connecting Bandar Utama to Johan Setia, Klang, East Coast Rail Link (ECRL) connecting Port Klang to Pengkalan Kubur, Mass Rail Transit Second Line "MRT 2" connecting Sungai Buloh, Klang and Putrajaya, Pan Borneo Highway, Central Spine Road and 350km high speed rail connecting KL-Singapore under the Budget 2018. These projects will drive the activities within the Group as Chin Hin is in a better fortuitous than others in securing those projects due to the Group specialises in the Industrialised Building System (IBS).

With regard to industry challenges, we foresee intense market competition with the emergence of new players in the market. In mitigating this direct competition, Chin Hin will re-position itself to be a solution provider or a value-added partner that comprehensively handles the project needs of their client from concept to installation through support. The Company 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 start production on the capacity it has built. The Company 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 envisages a brighter outlook for FY2018 and look to the future with cautious optimism.