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# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Twentieth (20th) Annual General Meeting of the members of the Company will be held at the Eugenia Room, Ground Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Friday, 26 May 2017, at 10.30 a.m. for the purpose of transacting the following businesses: -

- |   |  |
|---|--|
| 1. To receive the Audited Financial Statements for the year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.                       | <b>Please refer<br/>Notes No. 7(a)</b>                                 |
| 2. To approve the payment of a final dividend of 1.5sen per ordinary share in respect of the year ended 31 December 2016.   | <b>Resolution 1</b>  |
| 3. To approve the payment of Directors' fees of RM376,598/- (2015 - RM380,480/-) in respect of the year ended 31 December 2016.   | <b>Resolution 2</b>  |
| 4. To approve the payment of Directors' benefits up to an amount of RM100,000/- from 01 January 2017 until the next Annual General Meeting of the Company.                | <b>Resolution 3</b>  |
| 5. To re-elect the following Directors who retire pursuant to the Company's Articles of Association and, being eligible, offer themselves for re-election: -              |  |
| (a) Mr. Choong Kai Fatt   | Article 100  |
| (b) Datuk Zainun Aishah binti Ahmad   | Article 100  |
| (c) Dato' Koh Hong Sun  | Article 105  |
| 6. To appoint Baker Tilly Monteiro Heng as Auditors of the Company in place of the retiring Auditors, KPMG PLT, and to authorise the Directors to fix their remuneration. | <b>Resolution 4<br/>Resolution 5<br/>Resolution 6<br/>Resolution 7</b> |

Notice of nomination from a shareholder pursuant to the Companies Act 2016, a copy of which is set out and marked "Appendix A", has been received by the Company for nomination of Baker Tilly Monteiro Heng who have given their consent to act, for appointment as Auditors and of the intention to propose the following Ordinary Resolution:-

"That Baker Tilly Monteiro Heng be and are hereby appointed as Auditors of the Company in place of the retiring Auditors, KPMG PLT, and to hold office until the conclusion of the next Annual General Meeting at a remuneration to be determined by the Directors."

As Special Business:-

To consider and, if thought fit, to pass the following Ordinary Resolutions:-

- |   |                     |
|---|---------------------|
| 7. <b>Ordinary Resolution</b><br><b>Authority to issue shares pursuant to Section 75 of the Companies Act 2016</b>  | <b>Resolution 8</b> |
| <p>"THAT subject always to the Companies Act 2016, Articles of Association of the Company, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa") and approvals of any other relevant governmental/regulatory bodies where such approval is required, the Directors be and are hereby authorised and empowered pursuant to Section 75 of the Companies Act 2016, to allot and issue shares in the Company, to such persons, at any time upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued does not exceed ten percent (10%) of the total number of issued shares for the time being of the Company AND THAT the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting ("AGM") of the Company after the approval was given or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier.</p> |                     |
| 8. <b>Ordinary Resolution</b><br><b>Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature</b>  | <b>Resolution 9</b> |
| <p>THAT, subject to the provisions of the Main Market Listing Requirements of Bursa, approval be and is hereby given for the Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("New Shareholders' Mandate") for the Company and/or its subsidiary companies ("the Group") to enter into and to give effect to the category of Recurrent Related Party Transactions of a Revenue or Trading nature from time to time with the Related Party as specified in Section 2.4 Part A of the Circular to Shareholders dated 28 April 2017 provided that such transactions are:-</p>   |                     |

## Notice of Annual General Meeting (cont'd)

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

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

- (a) the conclusion of the next AGM of the Company following this AGM at which the New Shareholders' Mandate is passed, at which time it will lapse unless the authority is renewed by a resolution passed at the next AGM;
- (b) the expiration of the period within which the next AGM to be held pursuant to Section 340(2) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) is revoked or varied by resolution passed by shareholders in a general meeting,

whichever is earlier.

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

### 9. Ordinary Resolution

#### Proposed Renewal of Authority for Share Buy-Back

#### Resolution 10

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

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

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

- (i) the conclusion of the next AGM of the Company following at which time the authority shall lapse unless by an ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next AGM is required by law to be held; or
- (iii) revoked or varied by ordinary resolution passed by the shareholders at a General Meeting,

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

## Notice of Annual General Meeting (cont'd)

### 10. Ordinary Resolution

#### Continuing in Office as Independent Non-Executive Director

#### Resolution 11

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

### 11. Ordinary Resolution

#### Continuing in Office As Independent Non-Executive Director

#### Resolution 12

"THAT authority be and is hereby given to Datuk Zainun Aishah binti Ahmad who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company."

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

### BY ORDER OF THE BOARD,

#### ANDREA HUONG JIA MEI (MIA 36347)

Company Secretary

Kuala Lumpur

28 April 2017

### Notes:

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint up to two (2) proxies to attend and vote instead of him/her. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
2. Where a member of the Company is an exempt authorised nominee ("EAN") as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the EAN may appoint in respect of each omnibus account it holds.
3. In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
4. The Form of Proxy must be deposited at the Share Registrar's Office, Symphony Share Registrars Sdn. Bhd., Pusat Dagangan Dana 1, Jalan PJU Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor not less than forty- eight (48) hours before the time set for the meeting or any adjournment thereof.
5. Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all the Resolutions set out in this Notice will be put to vote by poll.
6. **General Meeting Record of Depositors**  
For purposes of determining who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 54(C) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa ("LR"), a Record of Depositors as at 19 May 2017 and a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his stead.
7. **Explanatory Notes on Ordinary and Special Business:**
  - (a) Audited Financial Statements for financial year ended 31 December 2016  
The audited financial statements are for discussion only under Agenda 1, as it does not require shareholders' approval under the provision of Section 340(1)(a) of the Companies Act 2016. Hence, this item in the agenda is not put forward for voting by shareholders of the Company.

## Notice of Annual General Meeting (cont'd)

(b) Director's Benefits Payable

Pursuant to Section 230 (1) of the Companies Act 2016, the fees and benefits payable to the Directors of the Company will have to be approved by the shareholders at a general meeting. The total estimated amount of Director's benefit payable is calculated based on the number of scheduled Board's and Board's Committee Meeting from 1 January 2017 until the next AGM.

This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next AGM of the Company.

(c) Resolution pursuant to Section 75 of the Companies Act 2016

Resolution No. 8 is to seek a renewal of the general mandate for the issue of new ordinary shares pursuant to Section 75 of the Companies Act 2016 which was approved by shareholders at the last year's AGM ("the previous mandate"). As the date of this Notice, the Company did not allot any shares pursuant to the previous mandate.

The proposed Resolution No. 8, if passed, will empower the Directors of the Company to issue and allot new shares in the Company at any time and for such purposes as the Directors considered would be in the interests of the Company up to an aggregate not exceeding ten percent (10%) of the total number of issued shares of the Company without convening a general meeting. This authority, unless revoked or varied at a general meeting will expire at the conclusion of the next AGM or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is earlier.

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

(d) Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

Resolution No. 9, if passed, will authorise the Company and/or its subsidiaries to enter into recurrent related party transactions with related parties in the ordinary course of business which are necessary for the Group's day-to-day operations and are on terms not more favourable to the related parties than those generally available to the public and shall lapse at the conclusion of the next AGM unless authority for its renewal is obtained from the shareholders of the Company at a General Meeting. For further information, please refer to Part A of the Circular to Shareholders dated 28 April 2017, which is circulated together with this Annual Report.

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

Resolution No. 10, if passed, will empower the Company to purchase and/or hold up to ten percent (10%) of the issued shares of the Company. This authority will, unless revoked or varied by the Company in General Meeting, expire at the next AGM. For further information, please refer to Part B of the Circular to Shareholders dated 28 April 2017 which is circulated together with this Annual Report.

(f) Resolution Nos. 11 & 12

In line with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012, the Nomination Committee ("NC") has assessed the independence of Mr. Leou Thiam Lai and Datuk Zainun Aishah binti Ahmad, who have served as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years, and upon its recommendation, the Board of Directors has assessed and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:-

- (i) Mr. Leou Thiam Lai and Dato' Zainun Aishah binti Ahmad have fulfilled the criteria under the definition of Independent Director as stated in the LR of Bursa, and hence, they would be able to provide an element of objectivity, independent judgment and balance to the Board.
- (ii) Mr. Leou Thiam Lai is a Chartered Accountant of the Malaysian Institute of Accountants, a fellow member of the Chartered Association of Certified Accountants (UK) and a fellow member of the Chartered Tax Institute of Malaysia and thus, he is able to fulfil the financial expertise requisite under the LR in relation to the composition of the Audit and Risk Management Committee. Being the Chairman of the Audit and Risk Management Committee, his knowledge, skills and experience in finance and audit would enable him to ensure the effectiveness of the Audit and Risk Management Committee in providing independent, objective and effective oversight to the Board.
- (iii) Datuk Zainun Aishah binti Ahmad, aged 70, Malaysian, was appointed to the Board on 1 August, 2007. She is the Chairman of the Nomination Committee and a member of the Audit and Risk Management Committee and Remuneration Committee. She was with Malaysia Industrial Development Authority ("MIDA") for thirty-five (35) years whereby she holds key position as the Director General of MIDA for nine (9) years and Deputy-Director General for eleven (11) years. With thirty-five (35) years of experience in various key position in MIDA, she would be able to provide constructive opinions and exercise independent judgement.
- (iv) Their length of service on the Board of more than nine (9) years does not in any way interfere with their exercise of objective judgment or their ability to act in the best interests of the Company and Group. In fact, Mr. Leou Thiam Lai and Datuk Zainun Aishah binti Ahmad, having been with the Company for more than nine (9) years, are familiar with the Group's business operations and has devoted sufficient time and commitment to their role and responsibilities as Independent Directors for informed and balance decision making.
- (v) Both have exercised due care and sufficient time during their tenure as Independent Non-Executive Directors of the Company and have discharged their duties with reasonable skill and competence, bringing independent judgement and depth into the Board's decision making in the interest of the Company and its shareholders.

Resolution Nos. 11 & 12 if passed, will authorise Mr. Leou Thiam Lai and Datuk Zainun Aishah binti Ahmad to continue in office as Independent Non-Executive Directors of the Company until the conclusion of the next AGM of the Company.

# Corporate Information

## DIRECTORS:

Dato' Hasan bin M. Taib  
(Chairman)  
Datuk Zainun Aishah binti Ahmad  
Dato' Koh Hong Sun  
(appointed on 01.08.2016)  
Choong Kai Soon  
Choong Kai Fatt  
Choong Khoi Onn  
Choong Kay Cheong  
Leou Thiam Lai

## PRINCIPAL BANKERS:

Malayan Banking Berhad  
No. 66, 68 & 70  
Jalan Maarof  
Bangsar Baru  
59100 Kuala Lumpur  
  
Public Bank Berhad  
No. 36 & 38  
Jalan Maarof  
Bangsar Baru  
59100 Kuala Lumpur

## SHARE REGISTRARS:

Symphony Share Registrars Sdn Bhd  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor  
Tel: 03-7841 8000  
Fax: 03-7841 8008

## SECRETARY:

Andrea Huong Jia Mei  
(MIA 36347)

## STOCK EXCHANGE LISTING:

Bursa Malaysia Securities Berhad  
Main Market Stock Code 7119

## REGISTERED OFFICE:

No. 42, 1st Floor  
Jalan Maarof  
Bangsar Baru  
59100 Kuala Lumpur  
Tel: 03-2282 3618  
Fax: 03-2282 4960  
Email: [info@degembhd.com](mailto:info@degembhd.com)  
Website: <http://www.degembhd.com>

## AUDITORS:

KPMG PLT  
Level 8, KPMG Tower  
8, First Avenue  
Bandar Utama  
47800 Petaling Jaya  
Selangor, Malaysia

## CORPORATE AND PRINCIPAL PLACE OF BUSINESS OFFICE:

No. 42, 1st Floor  
Jalan Maarof  
Bangsar Baru  
59100 Kuala Lumpur  
Tel: 03-2282 3618  
Fax: 03-2282 4960



DeGem  
The Fairy Tale Collection [Rainbow of Hope]



# DeGem



The intense green hue of the jade pieces forms an elegant jewellery set, complete with an exotic ru yi jadeite pendant, brilliant diamonds and cabochon rubies.

## Created for Greatness. Signed with Passion.

At DeGem, every jewel tells a story. Every masterpiece was dreamt into existence, expertly crafted to life with passion. Every piece is unique. It forms a bond with the one who wears it – a legacy that will live on forever.

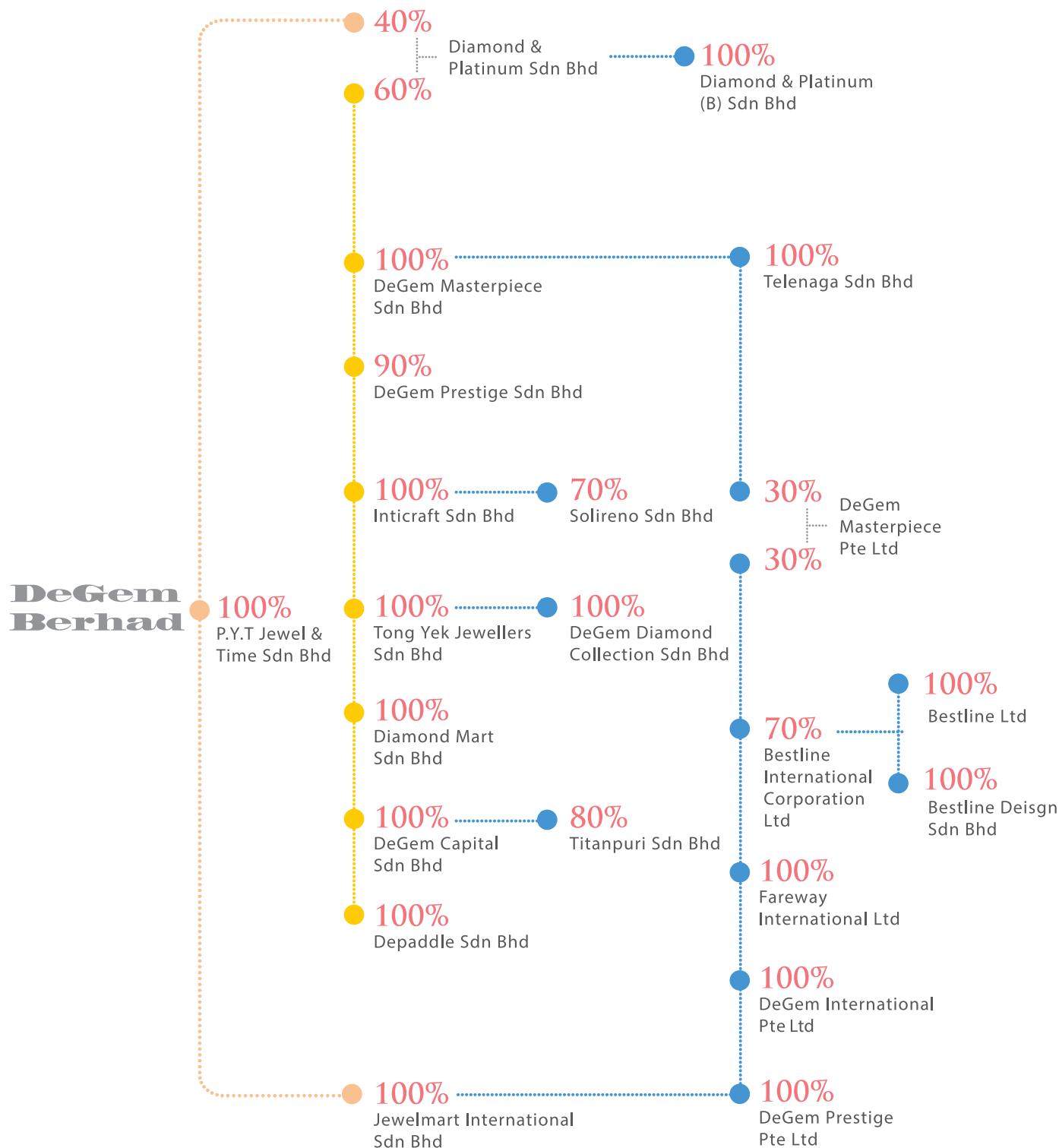
KUALA LUMPUR - BANGSAR FLAGSHIP STORE | PAVILION KL | THE GARDENS MALL | 1 UTAMA ( NEW WING ) | AMPANG POINT | SINGAPORE - MARINA BAY SANDS

Exclusive Brands - Lazare Diamonds® ( Malaysia ) | Forevermark® ( Malaysia ) | Victor Mayer | Infinity® | Soleluna®

[www.degemdiamond.com](http://www.degemdiamond.com) | [www.facebook.com/DeGemDiamond](https://www.facebook.com/DeGemDiamond)



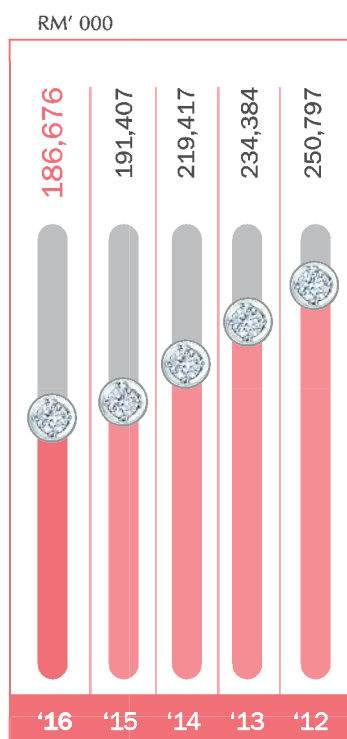
# Group Structure



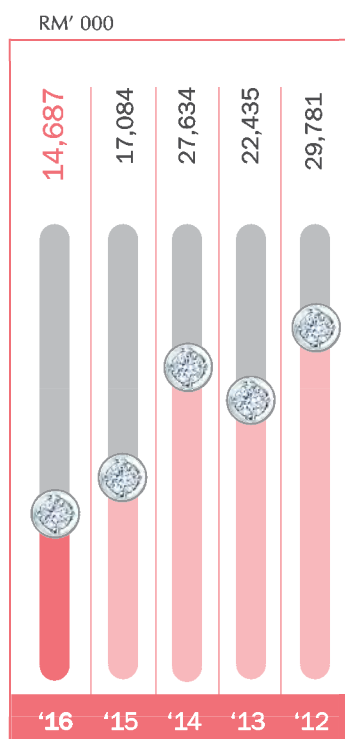
## Financial Highlights for the Past 5 Years

| Year Ended 31 December                               | 2016<br>(RM'000) | 2015<br>(RM'000) | 2014<br>(RM'000) | 2013<br>(RM'000)<br>Restated | 2012<br>(RM'000) |
|--|------------------|------------------|------------------|------------------------------|------------------|
| Revenue  | 186,676          | 191,407          | 219,417          | 234,384                      | 250,797          |
| Profit Before Tax                                    | 14,687           | 17,084           | 27,634           | 22,435                       | 29,781           |
| Taxation   | (4,598)          | (5,844)          | (8,241)          | (5,935)                      | (6,968)          |
| Profit After Tax                                     | 10,089           | 11,240           | 19,393           | 16,500                       | 22,813           |
| Minority Interests                                   | 122              | (492)            | (1,219)          | (1,092)                      | (1,132)          |
| Profit After Tax and<br>Attributable to Shareholders | 10,211           | 10,748           | 18,174           | 15,408                       | 21,681           |
| Net Tangible Assets Per Share (Sen)                  | 198.4            | 192.4            | 176.2            | 160.9                        | 149.0            |

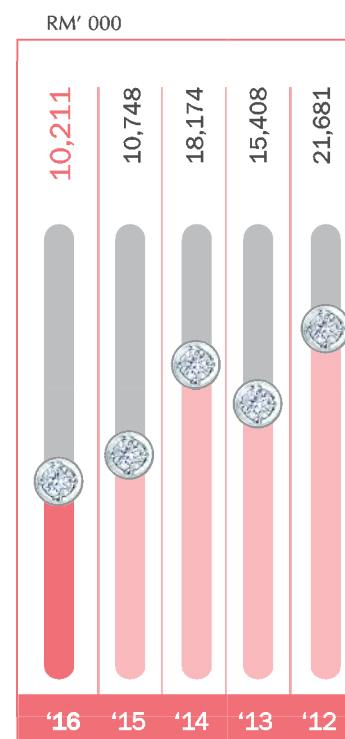
### Revenue



### Profit Before Tax



### Profit After Tax And Attributable To Shareholders



# Directors' Profile

## Dato' Hasan bin M. Taib

Male, Chairman  
(Non-Executive Director)

Dato' Hasan bin M. Taib, aged 63, Malaysian, was appointed to the Board of Directors of Degem Berhad ("Board") on 6 April 2001. Dato' Hasan began his career in 1978 as a sales supervisor/computer coordinator for Redec Travel, which is the general sales agent for Malaysia Airline System in Jeddah, Saudi Arabia. In 1982, he left Redec Travel to start his own business in trading, property and investment in Saudi Arabia, London and Singapore. After returning to Malaysia in 1986, he formed Misbah Group of Companies, specialises in travel, property investment and development business in 1986. He obtained a degree in Science in 1997 from Pacific Western University, United States of America. He presently sits on the board of several other private limited companies. Dato' Hasan bin M. Taib does not hold any directorship in any other public corporation other than DeGem Berhad.

## Mr Choong Khoi Onn

Male, (Executive Director)

Mr Choong Khoi Onn, aged 60, Malaysian, was appointed to the Board on 6 April 2001. He is a member of the Remuneration Committee. He obtained a diploma in Financial Accounting from Tunku Abdul Rahman College in 1979 and started his career as an audit assistant with a local audit firm before joining the Group in 1982. He is now responsible for the financial and administrative matters of the Group. He is actively involved in all major decision making of the Group. Mr Choong Khoi Onn does not hold any directorship in any other public corporation other than DeGem Berhad.

## Mr Choong Kai Fatt

Male, (Chief Executive Director)

Mr Choong Kai Fatt, aged 56, Malaysian, was appointed to the Board on 6 April 2001. He is a member of the Remuneration Committee. He has more than 30 years' experience in the jewellery business. He joined a subsidiary of the Group in 1983 and is a qualified gemologist since 1989, having studied gemology from the Gemological Institute of America. He is currently in charge of the purchasing and marketing operations of the Group. He is actively involved in all the decision making of the Group. Mr Choong Kai Fatt does not hold any directorship in any other public corporation other than DeGem Berhad.



DeGem  
The Fairy Tale Collection [Guardian of Treasures]

## Mr Choong Kai Soon

Male, (Executive Director)

Mr Choong Kai Soon, aged 57, Malaysian, was appointed to the Board on 6 April 2001. He started his career working as a goldsmith in 1974. He is responsible for the manufacturing divisions of the Group as well as in enforcing quality control during manufacturing and on-the-job training to craftsmen in the Group. He is actively involved in all the major decision making of the Group. Mr Choong Kai Soon does not hold any directorship in any other public corporation other than DeGem Berhad.

## Mr Choong Kay Cheong

Male, (Executive Director)

Mr Choong Kay Cheong, aged 53, Malaysian, was appointed to the Board on 31 March 2005. He graduated with a Bachelor Degree in Engineering (Civil) Hons from Universiti Teknologi Malaysia and a Masters in Engineering (Civil) from University of Auckland, New Zealand. He first started out as a project manager in the construction industry before co-founding Diamond & Platinum Sdn. Bhd, a subsidiary of the Group in 1999. He is also actively involved in the daily operation and decision making of the Group. Mr Choong Kay Cheong does not hold any directorship in any other public corporation other than DeGem Berhad.



## Directors' Profile (cont'd)

### Mr Leou Thiam Lai

Male, (Independent Non-Executive Director)

Mr Leou Thiam Lai, aged 60, Malaysian, was appointed to the Board on 21 May 2001. He is the Chairman of the Audit & Risk Management Committee and a member of the Nomination and Remuneration Committees. Mr Leou is a Chartered Accountant of the Malaysian Institute of Accountants, Fellow member of the Chartered Association of Certified Accountants (UK) and a Fellow member of the Chartered Tax Institute of Malaysia (formerly known as Malaysian Institute of Taxation). He was with Aljeffri, Siva, Heng and Monteiro from 1980 to 1981 and Baharom Hamdan from 1981 to 1984. He then set up his own Chartered Accountants firm, Leou & Associates, in 1988 and Associates PLT, in 2015. He serves as a partner of both the firm. Currently, he also sits on the boards of Sern Kou Resources Berhad, Asiamet Education Group Berhad and Menang Corporation (M) Berhad.

### Datuk Zainun Aishah binti Ahmad

Female, (Independent Non-Executive Director)

Datuk Zainun Aishah binti Ahmad, aged 70, Malaysian, was appointed to the Board on 1 August, 2007. She is the Chairman of the Nomination Committee and a member of the Audit & Risk Management and Remuneration Committees. She holds an Honours Degree in Economics from University Malaya. She began her career with Malaysia Industrial Development Authority ("MIDA"), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country as an Economist where she worked for 35 years. In her 35 years of service, she has held various key positions in MIDA as well as in some of the country's strategic council, notably her pivotal role as National Project Director in the formulation of Malaysia's First Industrial Master Plan and as a member of the Industrial Coordination Council in the implementation of the Second Industrial Master Plan. She was the Director-General of MIDA for 9 years and Deputy Director-General for 11 years. Whilst in MIDA, she was also a member of the Industrial Coordination Act Advisory Council, Defense Industry Council and National Committee on Business Competitiveness Council.

She was formerly a Director of Tenaga Nasional Berhad, Kulim Hi-Tech Park and Malayan Banking Berhad. Currently, she's the Chairwoman of Scomi Engineering Berhad, a director of Berjaya Food Berhad, British American Tobacco (Malaysia) Berhad and Hengyuan Refinery Company Berhad [formerly known as Shell Refinery Company (Federation of Malaya) Berhad], all are public listed companies.

### Dato' Koh Hong Sun

Male, (Independent Non-Executive Director)

Dato' Koh Hong Sun, aged 64, Malaysian, was appointed to the Board on 01 August 2016. He is a Chairman of Remuneration Committee and a member of the Audit & Risk Management and Nomination Committees. He graduated with a Master Degree in Strategic and Security Studies from Universiti Kebangsaan Malaysia. He had a distinguished career with the Royal Malaysia Police ("RMP") for almost 40 years, having joined RMP as a Probationary Inspector in 1971 and retired in October 2010 as the Director of Commercial Crime Investigation Department. During the period as an officer of the RMP, he had held various important command posts, including as Commandant of The Police Training Centre in Kuala Lumpur, Assistant Director NCB-Interpol, Officer-in-Charge of Brickfields Police District, Federal Traffic Chief, Deputy Chief Police Officer of Johor, Chief Police Officer of Penang and Commissioner of Police as Director of Commercial Crime Investigation Department.

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

#### Additional Information:

1. None of the Directors has:
  - i) been convicted of any offence within the past five (5) years.
  - ii) been imposed with any public sanction or penalty by the relevant regulatory bodies during the FYE 2016.



# Senior Management Profile

## ELAINE NG AI LIAN

General Manager – HR & Admin  
Female, Malaysian, Aged 47

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

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

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

## GOH YIK BOON

Senior Finance Manager  
Male, Malaysian, Aged 47

Mr Goh Yik Boon joined the Group on 1st March 2016 as Senior Finance Manager spearheading the overall finance and accounts for DeGem Group of Companies in terms of managing the full spectrum of Finance and Accounts department for the DeGem Group of companies.

He is a qualified Chartered Accountant and member of Malaysia Institute of Accountants as well as a fellow member of the Association of Certified Chartered Accountants, United Kingdom.

He has more than 20 over years of working experience in financial services and the manufacturing industry. Prior to joining DeGem, he has worked with YFG Group as Senior Manager, Finance and Accounts, American Filter Manufacturing Sdn Bhd and Rex (M) Sdn Bhd, a subsidiary of Hong Leong Asia Ltd, Singapore as Finance Manager.

## JESSICA LEE SWEE CHENG

Human Resource & Administration Manager  
Female, Malaysian, Aged 37

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

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

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

## LEOW MEI FUI

Senior Marketing Manager  
Female, Malaysian, Aged 36

Ms Leow Mei Fui joined DeGem Masterpiece on 3rd February 2015 as Marketing Manager and was subsequently designated as Senior Marketing Manager on 1st January 2016. She is responsible for the marketing and communication portfolio of the overall DeGem brand as well as other sub-brands within the company such as Lazare, Forevermark, Soleluna and Infinity. She also plays the lead role in the brand implementation initiatives for DeGem in accordance to the brand guidelines.

Ms Leow holds a Degree in Bachelor of Communication (Honours) majoring in Persuasive Communication and a minor in Management from Universiti Sains Malaysia. Ms Leow is also a member of the Institute of Public Relations Malaysia (IPRM).

With 12 years of working experience, Ms Leow held the Senior Business Manager role overlooking both export sales and marketing portfolios in a food company and was the Senior Brand Manager for an established private higher education institution for four years before she joined DeGem.

### Additional Information:

- 1 None of the Key Senior Management staff holds directorship in public companies and listed companies.
- 2 None of the Key Senior Management staff has any conflict of interest with the Company.
- 3 None of the Key Senior Management staff has been convicted for offences within the past five (5) years or was publicly sanctioned or imposed with penalty by the relevant regulatory bodies during the FYE 2016.

## Other Disclosure Information

### **FAMILY RELATIONSHIP OF DIRECTORS**

Save as disclosed, none of the Directors has any family relationship with any Directors and/or substantial shareholders of the Company:-

Choong Khoi Onn, Choong Kai Soon, Choong Kai Fatt, Choong Kay Cheong and Choong Sin Cheong are brothers.

### **CONFLICT OF INTEREST**

Save as disclosed in Note 26 to the Financial Statements, none of the Directors has any conflict of interest with the Company.

### **CONVICTION OF OFFENCES**

None of the Directors has been convicted for any offences within the past ten years other than traffic offences.

### **UTILISATION OF PROCEEDS**

The Company did not make any corporate proposal to raise proceeds during the financial year ended 31 December 2016.

### **OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES**

No options, warrants or convertible securities were exercised in the financial year ended 31 December 2016.

### **AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR") PROGRAMME**

During the financial year ended 31 December 2016, the Company did not sponsor any ADR or GDR programme.

### **IMPOSITION OF SANCTIONS/PENALTIES**

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, directors or management by the relevant regulatory bodies during the financial year.

### **AUDIT AND NON AUDIT FEE**

The total amount of audit fees and non-audit fees payable to external auditors by the Company and its subsidiaries for the financial year ended 31 December 2016 amounted to RM298,000 and RM15,000 respectively.

### **VARIATION IN RESULTS**

There was no material variance between the audited results for the financial year ended 31 December 2016 and the unaudited results previously announced.

### **PROFIT GUARANTEE**

The Company did not issue any profit guarantee during the financial year ended 31 December 2016.

### **MATERIAL CONTRACTS**

On 6 June 2016, Bestline International Corporation Ltd. ("BICL"), a 70% owned subsidiary of Jewelmart International Sdn. Bhd., which in turn is a wholly owned subsidiary of the Company had acquired 100% equity interest in Bestline Design Sdn. Bhd. ("BD") and Bestline Ltd. ("BL") for a cash consideration of RM2.00 and HK\$300,000 respectively. The principal activity of BD is trading of jewelry and other related product, whereas the principal activity of BL is trading of jewelry and provision of marketing research for customers.

### **RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

At the Twentieth Annual General Meeting to be held on 26 May 2017, the Company intends to seek the renewal of the shareholders' mandate for recurrent related party transactions of a revenue or trading nature from the date of the Twentieth Annual General Meeting up to the conclusion of the next Annual General Meeting.

The details of the general mandate to be sought are furnished in the Circular to Shareholders dated 28 April 2017 sent together with this Annual Report.



## Other Disclosure Information (cont'd)

### SHARE BUY-BACK

Mandate for the share buy-back of the Company's shares was approved by the shareholders at the last Annual General Meeting held on 19 May 2016. During the financial year ended 31 December 2016, the Company bought back a total of 6,000 of its ordinary shares of RM0.50 each ("DeGem shares") which are listed on the Main Market of Bursa Malaysia Securities Berhad in the open market.

The details of the DeGem Shares bought back during the financial year showing the monthly breakdown are as follows:

| Month of purchase | No. of Shares Purchased | Purchase Price Per Share (RM) |         |         | Total Consideration Paid (RM) |
|-------------------|-------------------------|-------------------------------|---------|---------|-------------------------------|
|                   |                         | Lowest                        | Highest | Average |                               |
| <b>2016</b>       |                         |                               |         |         |                               |
| May               | 2,000                   | 0.93                          | 0.93    | 0.93    | 1,904.99                      |
| December          | 4,000                   | 0.90                          | 0.90    | 0.90    | 3,647.54                      |

All the DeGem Shares bought back during the financial year are held as treasury shares in accordance with Section 67A(3A)(b) of the Companies Act, 1965. As at 31 December 2016, a total of 3,159,900 DeGem Share were held at treasury shares. None of the treasury shares held were resold or cancelled during the financial year.

### DIVIDEND PAID

Since the end of previous financial year, the Company paid:

- i) A first and final single tier dividend of 2.5sen per ordinary share totaling RM3,271,103 in respect of the financial year ended 31 December 2015 and was paid to the shareholders on 1 July 2016.
- ii) An interim single tier dividend of 1sen per ordinary share totaling RM1,308,401 in respect of the financial year ended 31 December 2016 and was paid to the shareholders on 28 December 2016.



ETERNAL LINKS  
COLLECTION

LAZARE®  
THE WORLD'S MOST BEAUTIFUL DIAMOND®

DeGem



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Lazare Kaplan International Inc., the manufacturer of LAZARE DIAMONDS®, fully supports the Kimberly Process protocols and follows a "zero tolerance" policy for conflict diamonds. We are a founding member of the United Nations Global Compact and a certified member of the Responsible Jewelry Council.

For more details visit: [www.lazarediamonds.com](http://www.lazarediamonds.com) | [www.lazarediamonds-sea.com](http://www.lazarediamonds-sea.com)  [TheLazareDiamond.SEAAsia](https://www.facebook.com/TheLazareDiamond.SEAAsia)



# Chairman's Statement

## Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report of DeGem Berhad ("the Group") for the financial year ended 31 December 2016 ("FY2016").

## Performance Review

For FY2016, the Group registered a lower revenue of RM186.7 million, as compared to RM191.4 million for FY2015 a decrease of RM4.7 million mainly due to lower contribution from the retail division arising from the weak consumer sentiment in the domestic market. Hence, profit after tax fell to RM10.1 million from RM11.2million. The profit was further affected by the currency exchange loss from the weaker Ringgit Malaysia and higher provision for bad debts in the Design and Distribution unit.

Our balance sheet remains healthy with improved shareholders' fund of RM245.7 million and net asset value per share RM1.94 as at 31 December 2016 while net debts to equity stands at negative 0.003 times as compared to 0.02 times as at 31 December 2015.

## Domestic Market

There was generally an increase in price for our products due to the weak Ringgit Malaysia. The Q1 2016 sales were the weakest among all 4 quarter with revenue of RM24.3 million as compared to Q1 2015 pre-GST sales of RM51.30million. The lower revenue mainly due to weak consumer sentiment in retail segment that pull down the revenue. Even though, the demands have improved from Q2 but did not recover sufficiently to its previous level.

There was a lower demand for jewellery across all price range, more so in the higher range. The Retail units have rolled out more promotion programs during the year to stimulate demand. An affordable collection named "DeGem's Fairly Tale Collection" was launched in August 2016 by the Group with encouraging response from the market and this managed to pull in more sales.

## Overseas Market

The overseas market comprising the Retail, Design & Distribution units contributed 35% to the total Group revenue. For FY2016, revenue was RM12.9 million or 24% higher at RM65.8 million as compared to FY 2015 of RM52.9 million, which was commendable under the weak global market environment.

## Manufacturing

The manufacturing unit caters to the need of the Retail units in the domestic market. The weak domestic retail market has pull down revenue of the Manufacturing unit with a revenue of RM8.8 million as compared to RM9.9 million recorded in FY2015.



DeGem  
The Fairy Tale Collection [The Dream Carriage]



## Chairman's Statement (cont'd)

### Industry Trend

Price of precious metal namely gold, silver and platinum have seen a mild recovery in prices in 2016. Demand for gemstone and diamonds jewellery remains largely lackluster.

### Prospects

The Malaysia economy is expected to record a GDP growth of 4% to 5% for 2017 (Budget 2017). The prolonged weak Ringgit Malaysia will continue to be a drag to the Group performance as it will translate to higher prices and affordability for jewellery goods.

The Group expects 2017 will be challenging but remains confident it had the experienced management team to ride it out. The Group is also in a strong financial to reap any opportunity that may rise. The international brands that the Group represents are expected to help to retain its position in the marketplace. The Group will continue to monitor the market trends to ensure that relevant products range is rolled out to meet the expectations of the market.

### Dividend

In line with performance of DeGem FY2016, the Board had approved the payment on 28 December 2016 of a single tier interim dividend of 1.0sen per ordinary share totalling RM1.3 million.

The Board of Directors recommends a single tier final dividend of 1.5sen per ordinary share, subject to the approval of the shareholders at the Twentieth Annual General Meeting.

### Acknowledgement

On behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders, bankers, customers, business partners and regulatory authorities for their continued support, guidance and assistance extended to the Group. The Board would like to express its appreciation to the management and employees of the Group for their hard work and dedication.

**Dato' Hasan bin M. Taib**  
Chairman



DeGem  
The Majestic Rooster

# Management Discussion and Analysis

## INTRODUCTION

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

## RETAIL & DISTRIBUTION SEGMENT

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

1. retail under the DeGem brand
2. retail under the Diamond & Platinum brand
3. retail under the JEOEL brand
4. wholesale via its design and distribution unit

### 1. DeGem

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

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

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

### 2. Diamond & Platinum

Diamond & Platinum is the market leader of contemporary jewellery in platinum and white gold, tailored for the young and trendy consumers. Diamond & Platinum offers its consumers a choice of high quality diamond and gemstones jewellery at affordable prices. Diamond & Platinum has 14 outlets throughout Malaysia and one in Brunei, which are located mostly at major shopping malls for easy accessibility by its target markets. The pride of Diamond & Platinum is its signature Estrella® Diamond, where eight perfectly symmetrical and identical hearts and arrows are bonded in a testament to the perfect symmetry and alignment of its facets.

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

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

### 3. JEOEL

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

Helmed by young management team, JEOEL continues to uphold the legacy of fine craftsmanship that is the hallmark of DeGem Group, but also infusing elements of youth, playfulness and fun to jewellery accessories. JEOEL has 3 outlets within the Klang Valley, which are located at major shopping malls for easy accessibility by its target market.

## Management Discussion and Analysis (cont'd)

### 4. Design and Distribution

DeGem's design and distribution centre is based in Hong Kong, which is the hub of international jewellery business. Due to its strategic location, DeGem supplies to retailers from Europe, Asia Pacific, the Middle East as well as South East Asia. In addition to contributing significantly to DeGem's overseas revenue, market demand patterns from the design and distribution division allows the Group to keep abreast of the constant changes in consumer preferences and trends in the jewellery industry.

### DISTRIBUTION NETWORK

Currently, DeGem has expanded its retail network to Singapore and Brunei, apart from strengthening its foothold in Malaysia. DeGem has also ventured into the wholesale business with its design and distribution unit in Hong Kong, which supplies to markets as far as Europe, Asia Pacific, the Middle East and South-East Asia.

#### DeGem Operation:

#### 1. Malaysia Operation:

- |      |                    |   |            |
|------|--------------------|---|------------|
| i.   | DeGem              | - | 5 outlets  |
| ii.  | Diamond & Platinum | - | 14 outlets |
| iii. | JEOEL              | - | 3 outlets  |

#### 2. Overseas Operation:

- |      |           |   |                             |
|------|-----------|---|-----------------------------|
| i.   | Singapore | - | 1 DeGem outlet              |
| ii.  | Brunei    | - | 1 Diamond & Platinum outlet |
| iii. | Hong Kong | - | 2 Distribution centre       |

### COMPETITIVE STRENGTHS

#### 1. Leading brands in Malaysia

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

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

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

#### 3. Skilled craftsmanship

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

#### 4. Forward looking management team

The present management, who are also the founders of the Group, has successfully nurtured DeGem into an established player in the design, manufacture, distribution and retailing of diamond jewellery in the region. Their astute stewardship, together with good financial governance ensured that the Group's steady growth is supported by strong cash flows and optimum inventory level.

### BUSINESS STRATEGY

#### 1. Vertical integration to generate above average margin

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



## Management Discussion and Analysis (cont'd)

### 2. Diversifying income sources via regional expansion

Armed with an understanding of Asian customers' unique preferences for diamonds and gemstones jewellery, DeGem has deftly and strategically positioned itself for direct regional expansion into Singapore, Brunei and Hong Kong. The Group expanded its operations in Singapore with the opening of the DeGem brand boutique in year 2011 at The Shoppes at Marina Bay Sands integrated resort, which is also the newest tourist attraction in Singapore.

DeGem's design and distribution unit continues to stamp its mark in the international arena via its participation in trade exhibitions held all over the world. In line with its long term plan of becoming an acclaimed regional jeweller, DeGem is always on the lookout for opportunities to expand its operations to other countries in the region.

## FINANCIAL REVIEW

### REVENUE

For the financial year ended ("FYE") 31 December 2016, the Group registered a revenue of RM186.7 million as compared with a revenue of RM191.4 million recorded in the FYE 31 December 2015. The revenue from retail, design & distribution and manufacturing segment was down by 2.0% and 11.0% to RM177.7million and RM8.8million as compared to previous financial year of RM181.3million and RM9.9million respectively. The decrease in revenue from retail and manufacturing segment was mainly due to weak consumer sentiments and lower demand for its product offered.

### GROSS PROFIT

DeGem recorded a gross profit ("GP") of RM84.9million for the FYE 31 December 2016, a growth of RM2.6million or 3.2% over FYE 31 December 2015 of RM82.2million. The GP margin for the FYE 31 December 2016 has improved to 45.5% from 43.0% in FYE 31 December 2015. The growth in GP margin was attributed to the weaker Ringgit Malaysia as prices of goods sold are marked to US Dollar which had appreciated.

### PROFIT BEFORE TAXATION

DeGem recorded a lower profit before taxation ("PBT") to RM14.7million for the FYE 31 December 2016 from RM17.1million in the FYE31 December 2015, an RM2.4million decrease or -14.0%. The lower PBT mainly due to other factors which were:

- Higher administrative expenses,
- higher provision for bad debts from Distribution unit in Hong Kong, and
- higher finance costs due to increase in bank borrowing.

Set forth as follows are the major variance, principally adverse towards the account for the FYE 31 December 2016:

#### i) Other Income

The other income has decrease from RM5.5million to RM2.0million for the FYE 31 December 2016. The decrease in other income was mainly due to foreign exchange gain. The foreign currency exchange gain was higher in FYE 31 December 2015 due to translation gains in inter-company debts and USD was kept in the Group's accounts whilst USD strengthened against RM.

#### ii) Administrative Expenses

The Administrative expenses had increased by RM2.5million or 4.3% from RM57.5million in FYE 31 December 2015 to RM60.0million for 31 December 2016. The increase was mainly due to higher operating expenses incurred such as outlets rental, staff costs, utilities, marketing expenses and premises maintenance. The staff and staff related cost was the largest component of the administrative expenses, constituting about 52.6%, followed by outlet rental at 19.9%.

#### iii) Other Expenses

For the FYE 31 December 2016, other expenses decrease by RM1.2million to RM10.6million from RM11.8million in FYE 31 December 2015. The decrease was mainly due to lower recognition in foreign exchange loss as compared to prior year even with a provision for bad debts of RM1.4 million from the Design and Distribution unit for the FYE 31 December 2016. The management has since initiated negotiation with debtors to accept return of goods and/or easy payment scheme.

#### iv) Finance Expenses

Finance costs for the FYE 31 December 2016 was RM1.7million as compared to FYE 31 December 2015 of RM1.5million, an increase of RM0.2million or 13.3%. The finance charged was for the overdrafts, term loans and finance leases. The increase in finance costs was mainly due to Group's re-financing a piece of property and the proceeds used to pare down the overdraft facility.

## Management Discussion and Analysis (cont'd)

### LIQUIDITY AND CAPITAL RESOURCES

The Group's cash position increased from RM40.3million as at 31 December 2015 to RM47.3million as at 31 December 2016. From the cash flow statement for the FYE 31 December 2016, the Group generated net cash from operating activities of RM10.1million. Out of this, RM4.6million was used for dividends paid to shareholders, RM4.9million was used for the repayment of loans with financial institution and finance lease creditor. The Group's capital expenditure incurred in FYE 2016 was amounted to RM2.3 million, the majority of capital expenditure was allocated for the purchase of plant and machinery.

### GEARING

Total Group loans, including overdrafts and finance lease creditor, increased from RM44.4million as at 31 December 2015 to RM46.5million as at 31 December 2016. The increase was mainly due to re-financing of a piece of property. The net debts to equity of the Group's for the FYE31 December 2016 was at negative 0.003 times.

### INVENTORY MANAGEMENT

The Group inventories are gold, diamonds, rare and precious jewels. The Group keeps reasonable quantity of jewels in the stores to meet customer demands and expectations. Due to our products are more towards the fashion, design and craftsmanship with no shelf-life. The Group will ensure that there are insurance coverage on inventories to safeguard against any mishap that will result in material losses to the Group. Beside, on quarterly basis, evaluations are carried out to provide a provision for obsolete inventories.

### FOREIGN CURRENCY EXPOSURES

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

However, due to the difference in functional currencies between the Malaysian entities, the Singapore, Hong Kong and Brunei entities, the net assets values of the entities in these countries are subject to foreign currency translation risks. The changes in the accounting value of net assets were taken to the foreign currency translation reserve account. At 31 December 2016, there is a credit balance of RM13.5million in the foreign currency translation reserve account.

### DIVIDENDS

The Board will evaluate the Group's profitability, long term plans and cash flows position annually before recommending any dividend payment. A final single-tier dividend for FYE 2016 of 1.5sen per ordinary share amounting to RM2.0 million will be proposed for shareholders' approval at the forthcoming Annual General Meeting.

Since the end of the previous financial year, the Company paid:

- i) A first and final single tier dividend of 2.5sen per ordinary share totaling RM3.3million in respect of the financial year ended 31 December 2015 and was paid to the shareholders on 1 July 2016.
- ii) An interim single tier dividend of 1sen per ordinary share totaling RM1.3million in respect of the financial year ended 31 December 2016 and was paid to the shareholders on 28 December 2016.

### PROSPECTS

DeGem expects the economic landscape to remain soft due to the cautious consumer spending patterns on the back of uncertainties in the global and domestic economic and weakening in Ringgit Malaysia. The Group will continue its efforts to adopt a more aggressive marketing strategy and increase its advertising as well as promotional activities.

The Board believes that the Group will continue to remain profitable for the financial year ending 2017, leveraging on DeGem's reputable brand, long presence and experience in jewellery business coupled with plan initiatives such as opening of new outlets, continuous improvement on product offerings and the conscientious efforts to control operating costs.

# Corporate Governance Statement

The Board of Directors of DeGem Berhad (“DeGem”) recognises the importance of good corporate governance in ensuring that the interest of the Group, shareholders and other stakeholders are protected.

The Board is fully dedicated to continuously evaluate the Group’s corporate governance practices and procedures with a view to ensure the principles and recommendations in corporate governance as stipulated by the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) are applied and adhered to safeguard shareholders’ investments and protect the interests of all stakeholders.

In this annual Corporate Governance Statement, the Board is pleased to report its state of corporate governance in DeGem for the current financial year and the extent to which it has complied with the principles and recommendations set out in the MCCG 2012.

## 1. Establish clear roles and responsibilities

### 1.1 Clear Functions of the Board and Management

The Group continues to be led and managed by an effective Board. The Board has the overall responsibility for the corporate governance; establishing goals, strategies and direction; reviewing the Group’s performance and critical business issues and ultimately the enhancement of long term shareholders’ value.

To ensure the effective discharge of its function and responsibilities, the Board has delegated specific tasks to three (3) Board Committees namely the Audit and Risk Management Committee, Nomination Committee and Remuneration Committee. The Board Committees have its own terms of reference and have the authority to act on behalf of the Board within the authority as laid out in the terms of reference and report to the Board. The ultimate responsibility for the final decision on all matters deliberated in these Committees, however, lies with the Board.

In addition, the Board is guided by the Board Charter which sets out a list of specific functions that are reserved for the Board. Key matters reserved for the Board’s approval includes financial results, dividend policy, related party transactions, new ventures and investments, material acquisitions and disposal of assets not in the ordinary course of business, authority levels and treasury policies.

### 1.2 Clear Roles and Responsibilities

The Board is primarily responsible for the Group’s overall strategic plans for business performance, overseeing the proper conduct of business, succession planning, risk management, investor relations programmes, internal control and management information systems.

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

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



VICTOR MAYER  
Eloise Collection

## Corporate Governance Statement (cont'd)

### 1.3 Formalised Ethical Standards through Code of Ethics

The Board has adopted the Code of Ethics and Conduct ("Code") as well as Whistle Blowing Policy ("WP") on 19 November 2012. The Code outlines the standards of business conduct and ethical behaviours of Directors and employees of the Group in the performance and exercise of their duties when representing the Company. The Code covers conflict of interest; confidentiality of information; inside information and securities trading; safeguard of assets and funds; business records and control; compliance to laws; personal gift and contribution; health and safety; sexual harassment; outside interest; fair and courteous behaviour; and misconduct. A summary of the Code is available at the Company's website at <http://www.degembhd.com/degem.html>

The WP was established to provide a framework for direction and procedures to deal with fraud and related matters including theft and corruption and further defines the rights of the informants and the protection accorded to them.

If employees discover or suspect fraudulent activities, they may report to Head of Department or Chairman of Audit & Risk Management Committee ("ARMC"). The Board will periodically review and update the Code and the WP in accordance with the needs of the Company to ensure that they continue to remain relevant and appropriate.

### 1.4 Strategies Promoting Sustainability

The Board is committed to sustainability development. Employees' welfare, environment as well as community responsibilities are integral to the way in which the Company conducts its business. Report on activities pertaining to its corporate social responsibilities is set out on page 44 of this Annual Report.

### 1.5 Access to Information and Advice

The Directors have the right to access all information pertaining to the business and affairs of the Group for the purpose of discharging their duties. All scheduled meetings held during the year were preceded with a formal agenda issued by the Company Secretary. Prior to the meeting of the Board and the Board Committees, Board papers, which include reports relevant to the issues of the meeting, were circulated at least seven (7) calendar days prior to the meeting to all Directors to enable them to obtain meeting documents and Company's information in a timely manner and thus improving effectiveness of decision making.

Every Director has unhindered access to the advice and services of the Company Secretary and senior management. The Directors are also empowered to seek independent professional advice at the Company's expense should they consider it is necessary in the furtherance of their duties.

### 1.6 Company Secretary

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

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





## Corporate Governance Statement (cont'd)

### 1.7 Board Charter

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

The last review on the Board Charter was in 21 February 2013. The Board will periodically review and update its charter in accordance with the needs of the Company and to comply with new regulations that may have an impact on the discharge of the Board's responsibilities.

The Board Charter is available at the Company's website at <http://www.degembhd.com/degem.html>

## 2. Strengthen Composition

### 2.1 Nomination Committee

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

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

|           |                                 |   |
|-----------|---------------------------------|---|
| Chairman: | Datuk Zainun Aishah Binti Ahmad | <i>(Independent Non-Executive Director)</i> |
| Member:   | Leou Thiam Lai                  | <i>(Independent Non-Executive Director)</i> |
| Member:   | Dato' Koh Hong Sun              | <i>(Independent Non-Executive Director)</i> |

The duties and responsibilities of the NC are as follows:-

- (a) To consider, evaluate and recommend to the Board any new Board appointments;
- (b) To recommend to the Board, Directors to fill the seats on Board Committees;
- (c) To review annually and recommend to the Board with regards to the structure, size, balance and composition of the Board and Committees including the required mix of skills and experience, core competencies which non-executive directors should bring to the Board and other qualities to function effectively and efficiently;
- (d) To evaluate on an annual basis, the effectiveness of the Board as a whole, the Board Committees and each Director's ability to contribute to the effectiveness of the Board and the relevant Board Committees;
- (e) To recommend to the Board whether Directors who are retiring by rotation should be put forward for re-election/re-appointment at annual general meetings;
- (f) To review the Board's succession plans;
- (g) To review and recommend training to new Directors as well as continuous training for all Directors during the year; and
- (h) To consider other matters as referred to the Committee by the Board.



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## Corporate Governance Statement (cont'd)

### 2.2. Develop, Maintain and Review Criteria for Recruitment and Annual Assessment of Directors



#### (a) Recruitment or New Appointment of Directors

The NC assesses the effectiveness of the Board and the Board Committees, as well as performance of individual Directors on an annual basis. In furtherance to these annual assessments, the NC is able to identify gaps in the Board composition and the needs to identify and select new members to the Board. Apart from nominations which the NC may receive from Directors or committee members, the potential candidates are also sourced from relevant bodies or regulators. The NC shall conduct assessment and interview on shortlisted candidates, evaluate their suitability and recommend the suitable candidates for further approval from and appointment by the Board.

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

- (i) Size, composition, mix of skills, experience, competencies and other qualities of the existing Board, level of commitment, resources and time that the recommended candidate can contribute to the existing Board and Group;
- (ii) The candidate's skills, knowledge, expertise and experience, professionalism, integrity and, in the case of a candidate for the position of Independent Non-Executive Director, the independence criteria as set out in paragraph 1.01 of the Main Market Listing Requirements as well as the necessary skill and experience to bring an independent and objective judgment on issues considered by the Board and the ability to discharge such responsibilities as expected from Independent Non-Executive Directors; and
- (iii) The appropriate number of Independent Directors to fairly reflect the interests of the minority shareholders and that Independent Directors should make up at least one-third of the membership of the Board.

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

#### (b) Gender Diversity Policy

The Board is mindful of the Recommendation 2.2 of the Code and women candidate were sought as part of the recruitment exercise of new Director of the Company. The appointment of Datuk Zainun Aishah binti Ahmad to the Board on 1 August 2007 is evidence that the Board does not consider gender to be a bar to Board membership. The Board believes in and provides equal opportunities to candidates who have the skill, expertise, core competencies regardless of gender.

## Corporate Governance Statement (cont'd)

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

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

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

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

Information of each Director standing for re-election covering their personal profile, meeting attendance, directorships in other public companies and shareholdings in the Group is furnished in the Annual Report.

### (d) Annual Assessment

During the financial year, the NC had one (1) meeting and this meeting was attended by all members. In this meeting, which was held on 28 November 2016 the NC conducted its annual appraisal on the effectiveness of the Board, its Committees, the contribution of each director and the independence of the Independent Directors. The annual appraisal was conducted via questionnaire.

The Board's effectiveness was assessed in the areas of composition, board strategy, board meetings, corporate and financial reporting, risk management and investors relationship. The review criteria for assessing the Directors' individual performance was largely focus on their meeting attendance, competencies, experience, knowledge and commitment, contribution to interaction - constructive expression of views and issues, quality of input and understanding of role as Director.

The NC, upon the review carried out, is satisfied that the size of the Board is optimum and that there is an appropriate mix of experience and expertise in the composition of the Board and its Committees.



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DIAMOND

## 2.3 Directors' Remuneration

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

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

# DeGem



Forevermark Endlea™ Collection

It's a long journey  
to become the one.

In our constant pursuit of absolute beauty,  
every Forevermark diamond undergoes a  
journey of rigorous selection.

This is why less than 1% of the world's  
diamonds are worthy of the Forevermark  
inscription – our promise of beauty, rarity  
and responsible sourcing.



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## Corporate Governance Statement (cont'd)

The RC is entrusted under its Terms of Reference to assist the Board, amongst others, to recommend to the Board the remuneration of Executive Directors by linking rewards to the corporate and individual performance. The RC shall ensure that the level of remuneration is sufficient to attract and retain Directors of the quality required to manage the business of the Group. In the case of Non-Executive Directors, the level of remuneration is determined in accordance with their experience and the level of responsibilities assumed and is determined by the Board as a whole.

Meetings of the RC are held as and when necessary, and at least once a year. The RC had held one (1) meeting during the financial year ended 31 December 2016 and this meeting was attended by all the members.

The number of Directors whose income falls within the following bands is set out as follows:

| Remuneration Bands      | Executive Directors | Non-Executive |
|-------------------------|---------------------|---------------|
| RM50,000 and below      |                     | 4#            |
| RM100,001-RM150,000     |                     | 1             |
| RM600,001-RM650,000     | 1                   |               |
| RM1,050,001-RM1,100,000 | 1                   |               |
| RM1,100,001-RM1,150,000 | 1                   |               |
| RM1,450,001-RM1,500,000 | 1                   |               |

# include Dato' Koh Hong Sun who was appointed on 1/8/2016 and to replace Mr. Chuah Teong Aung whom has retired on 19/5/2016

An analysis of the aggregate remuneration received by the Directors of the Company from the Group, categorised into appropriate components is set out below:-

|                         | *Fees<br>(RM) | Salaries and<br>other emoluments<br>(RM) | Bonuses<br>(RM) | Benefit<br>in Kind<br>(RM) | Total<br>(RM) |
|-------------------------|---------------|--|-----------------|----------------------------|---------------|
| Executive Directors     | 178,200       | 4,102,867                                | -               | -                          | 4,281,067     |
| Non-Executive Directors | 198,398       | -  | -               | -                          | 198,398       |

An analysis of the aggregate remuneration received by the Directors of the Company from the Company, categorised into appropriate components is set out below:-

|                         | *Fees<br>(RM) | Salaries and<br>other emoluments<br>(RM) | Bonuses<br>(RM) | Benefit<br>in Kind<br>(RM) | Total<br>(RM) |
|-------------------------|---------------|--|-----------------|----------------------------|---------------|
| Executive Directors     | 178,200       | -  | -               | -                          | 178,200       |
| Non-Executive Directors | 198,398       | -  | -               | -                          | 198,398       |

\* Subject to approval by shareholders at the AGM.

## Corporate Governance Statement (cont'd)

### 3. Reinforce Independence

#### 3.1 Annual Assessment of Independence

The Board, through the NC, assess the independence of the Independent Directors on the Board, including new appointments.

During the financial year, the NC conducted the annual appraisal on the independence of the Independent Directors using the peer evaluation questionnaire for assessing the performance of the Independent Directors and the Independent Director questionnaire. Based on results of the appraisal, it was concluded that each of the four (4) Independent Directors continues to remain objective and independent in expressing their views and in participating in deliberations and decision making of the Board and Board Committees.

Additionally, each of these four (4) Independent Non-Executive Directors has provided an annual confirmation of their independence to the Nomination Committee and the Board.

#### 3.2 Tenure of Independent Directors

In line with the MCG 2012, the Board has agreed that upon the completion of the nine (9) years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Non-Executive Director. However, the Board must justify and seek shareholders' approval in the event it retains an Independent Director, a person who has served in that capacity for more than nine (9) years.

As at the date of this statement, its existing Independent Directors namely Mr. Leou Thiam Lai ("Mr. Leou") and Datuk Zainun Aishah Binti Ahmad ("Datuk Zainun") has exceeded a cumulative term of nine (9) years. The Nomination Committee and the Board have assessed and reviewed the performance and independence of both directors and was of the opinion that their length of service on the Board does not in any way interfere with their exercise of independent judgement. Moreover, the insight and knowledge of DeGems' core business operations acquired during their term of office would continue to enable them to discharge their duties and roles as an Independent Director effectively. As such, the Company would be seeking shareholders' approval at the coming AGM for them to continue in office as Independent Directors.

#### 3.3 Separation of positions of the Chairman and CEO

The role of the Independent Non-Executive Chairman and the Chief Executive Officer ("CEO") are distinct and separate to ensure that there is a balance of power and authority. The Chairman is responsible to ensure due execution of strategic goals, effective operations within the Group and to inform the Board in key matters pertaining to the Group.

#### 3.4 Composition of the Board

At the end of the financial year ended 31 December 2016, the Board has eight (8) members of whom comprise of one (1) Independent Non-Executive Chairman, Four (4) Executive Directors and three (3) Independent Non-Executive Directors. The composition of the Board is well balance and complies with the Listing Requirements of the Bursa Malaysia Securities Berhad ("Bursa Securities") that require at least two (2) directors or one-third of the total number of directors, whichever is the higher, to be independent.

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

The role of the Independent Non-Executive Directors is particularly important in providing an independent view, advice, and judgment to ensure that the interests of minority shareholders and the general public are given due consideration in the decision-making process. The Board assess the independence of an Independent director through the Assessment of Independence of Independent Directors under the annual Board Evaluation Process.

Members of the Board comprise professionals from diverse backgrounds, bringing with them depth and diversity of expertise, with a wide range of experience and perspective in discharging their responsibilities and duties and in managing the business of the Group. The profile of each Director is presented on pages 10 to 11 of this Annual Report.

## Corporate Governance Statement (cont'd)

### 4. Foster Commitment

#### 4.1 Time Commitment

To facilitate the Directors' time planning, an annual meeting calendar is prepared and circulated in advance of every year. The calendar provides Directors with scheduled Board and Board Committees meetings, as well as closed periods for dealing in securities by Directors based on the targeted dates of announcement of quarterly results.

Directors are expected to have the relevant expertise in order to contribute positively to the Company's performance and to give sufficient time and attention to carry out their responsibilities. The Board shall obtain this confirmation from its new members at the time of appointment.

The Directors' commitment in carrying out their duties and responsibilities is affirmed by their attendance at the Board and Board Committee Meetings held during the financial year ended 31 December 2016, as reflected below:-

|                                 | Attendance At Meetings of |                 |      |      |
|---------------------------------|---------------------------|-----------------|------|------|
|                                 | Board                     | Audit Committee | NC   | RC   |
| Dato' Hasan bin M. Taib         | 5/*5                      | N/A             | N/A  | N/A  |
| Choong Kai Soon                 | 5/*5                      | N/A             | N/A  | N/A  |
| Choong Kai Fatt                 | 5/*5                      | N/A             | N/A  | 1/*1 |
| Choong Khoi Onn                 | 5/*5                      | #5/5            | N/A  | 1/*1 |
| Choong Kay Cheong               | 5/*5                      | N/A             | N/A  | N/A  |
| Datuk Zainun Aishah binti Ahmad | 5/*5                      | 5/*5            | 1/*1 | 1/*1 |
| Leou Thiam Lai                  | 5/*5                      | 5/*5            | 1/*1 | 1/*1 |
| Dato' Koh Hong Sun              | 2/*2                      | 2/*2            | 1/*1 | 1/*1 |
| <i>(Appointed on 1/8/2016)</i>  |                           |                 |      |      |

\* Reflect the number of meetings held during the director's tenure of office

# Attended by invitation

#### 4.2 Directors' Training

During the financial year ended 31 December 2016, all the Directors have attended training programmes as follows:-

| Name of Directors               | Title of Programmes  |
|---------------------------------|--|
| Dato' Hasan bin M. Taib         | <ul style="list-style-type: none"> <li>Aligning Organization's Strategic Plan By Energizing People For Performance In Certain Times.</li> <li>Setting A Right Tone At The Top For High Performance</li> </ul>  |
| Choong Khoi Onn                 | <ul style="list-style-type: none"> <li>Aligning Organization's Strategic Plan By Energizing People For Performance In Certain Times.</li> <li>Setting A Right Tone At The Top For High Performance Culture.</li> </ul>   |
| Choong Kai Fatt                 | <ul style="list-style-type: none"> <li>Aligning Organization's Strategic Plan By Energizing People For Performance In Certain Times.</li> <li>Setting A Right Tone At The Top For High Performance Culture.</li> </ul>   |
| Choong Kai Soon                 | <ul style="list-style-type: none"> <li>Aligning Organization's Strategic Plan By Energizing People For Performance In Certain Times.</li> <li>Setting A Right Tone At The Top For High Performance Culture.</li> </ul>   |
| Choong Kay Cheong               | <ul style="list-style-type: none"> <li>Aligning Organization's Strategic Plan By Energizing People For Performance In Certain Times.</li> <li>Setting A Right Tone At The Top For High Performance Culture.</li> </ul>   |
| Datuk Zainun Aishah binti Ahmad | <ul style="list-style-type: none"> <li>Directors' Continuous Education Programme on               <ul style="list-style-type: none"> <li>- Highlights and Key Changes of the Companies Act, 2016</li> <li>- Security and Terrorism in Malaysia</li> <li>- The Power of Social Media and how it Impacts our Business</li> </ul> </li> <li>The Cybersecurity Threats and How Boards should Mitigate the Risks</li> </ul> |

## Corporate Governance Statement (cont'd)

| Name of Directors  | Title of Programmes  |
|--------------------|--|
| Dato' Koh Hong Sun | <ul style="list-style-type: none"> <li>• Audit Committee Conference 2016-By Malaysian Institute Of Accountants</li> <li>• Update On Amendments To The Main Market Listing Requirements Of Bursa Malaysia Securities Bhd.</li> <li>• Dialogue/Review Session On The "Securities Commission's Draft Malaysian Code On Corporate Governance 2016 "(Public Consultation Paper No.2/2016 )"</li> <li>• Corporate Governance Breakfast Series: Future Of Auditor Reporting – The Game Changer For Boardroom – Bursa Malaysia</li> <li>• Latest Updates On Directors' Remuneration Seminar 2016 By Federation Of Public Listed Companies Bhd.</li> <li>• 28th Annual Senior Managers' Conference 2016 Of Genting Malaysia Bhd – Creative Scene Investigation – Genting Malaysia Bhd.</li> <li>• Sustainability-Shaping The Future – MAICSA Annual Conference 2016</li> <li>• Companies Bill 2015 : "Overview Of Key Changes"</li> <li>• Kuala Lumpur Sogo Conference 2016: "Between Us, Our Journey Into The Future " By Sogo (Kl) Store Sdn Bhd."</li> </ul> |
| Leou Thiam Lai     | <ul style="list-style-type: none"> <li>• Aligning Organization's Strategic Plan By Energizing People For Performance In Certain Times.</li> <li>• Setting A Right Tone At The Top For High Performance Culture.</li> <li>• Persidangan Cukai Malaysia 2016</li> <li>• Corporate Tax Issues for 2016 &amp; 2017</li> </ul>  |

## 5. Uphold Integrity in Financial Reporting

### 5.1 Financial Reporting

The Board is committed to present a balanced and understandable assessment of the Group's financial position and prospects in the public release of financial results. These results are contained in the quarterly financial results, audited financial statements and Annual Reports.

The Board is assisted by the Audit & Risk Management Committee to oversee the Group's financial reporting process and also to ensure that the financial statements are drawn up following appropriate accounting policies and in accordance with the provisions of the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company. The accounting policies, once adopted, are consistently applied and supported by reasonable judgments and estimates.

The Audit & Risk Management Committee discussed with external auditors on their observations in relation to significant accounting and auditing issues as well as relevancy and appropriateness of the accounting principle applied and judgement affecting the financial statements.



  
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## Corporate Governance Statement (cont'd)

### 5.2 Relationship with the External Auditors

It is the policy of the Audit & Risk Management Committee to meet with the External Auditors to discuss their audit scope, methodology and materiality; preliminary audit risk assessment; new accounting standards and its financial and disclosure impact; audit findings and their views in respect of the integrity of the Company's financial statements. At least one of the meetings was held without the presence of executive Board members. In addition to this, External Auditors are invited to attend Annual General Meetings of the Company and are available to answer shareholders' questions on the audited financial statements of the Company.

#### Assessment of suitability and independence of External Auditors

The Audit & Risk Management Committee had on 14 April 2016, undertaken an assessment on the suitability and independence of the External Auditors for the financial year. The Audit & Risk Management Committee has reviewed the independence of the External Auditors via, amongst others, an annual review of the non-audit services rendered by the External Auditors and the related amount of fees. The Audit & Risk Management Committee had also obtained assurance from the External Auditors confirming their independence throughout the audit engagement in accordance with the terms of relevant professional and regulatory requirements. The Audit & Risk Management Committee had met with the external auditors once during the financial year under review without the presence of executive members of the Board. The Audit & Risk Management Committee Report covering its terms of reference, composition, activities and attendance of the members are reported separately on pages 39 to 42.

The Audit & Risk Management Committee was satisfied with the suitability of KPMG PLT based on the quality of services and sufficiency of resources they provided to the Group, in terms of the firm and the professional staff assigned to the audit. The Audit & Risk Management Committee was also satisfied on its assessment that provision of non-audit service by KPMG PLT to the Company for the financial year ended 31 December 2016 did not impair their independence as External Auditors.

Notice of nomination from a shareholder pursuant to the Companies Act 2016, has been received by the Company, nominating Baker Tilly Monteiro Heng for appointment as the new auditors, in place of the retiring Auditors, KPMG PLT at the forthcoming AGM of the Company.

### 5.3 Related Party Transactions

The Audit Committee had reviewed the related party transactions that arose within the Group to ensure that the transactions were fair and reasonable, not detrimental to the minority shareholders and were in the best interest of the Company.

## 6. Recognise and Manage Risks

### 6.1 Risk Management and Internal Control

The Board is responsible for the adequacy and effectiveness of the Group's risk management and internal control system. Risk management is embedded in the Group's management systems. The Board with the assistance of the in-house internal audit function has established processes for identifying, evaluating and managing the significant risks faced by the core business of the Group. The outcome of the process is reviewed by the Board and is guided by the Statement on Risk Management & Internal Control Guidelines for Directors of Public Listed Companies issued by Bursa Securities.

### 6.2 Internal Audit Function

The internal audit function is carried out by the internal audit department which reports directly to the Audit & Risk Management Committee on its activities based on the approved annual internal audit plan. During the year, DeGem has also appointed an outsourced Internal Auditor for better internal control practices on 1 June 2016. Audit reviews were carried out and audit findings were reported on quarterly basis to the Audit & Risk Management Committee. Further details of the activities of the internal audit function are set out in the Audit Committee Report on page 42 of this Annual Report.

The Statement of Risk Management and Internal Control furnished on pages 35 to 37 of this Annual Report provides an overview on the state of internal controls within the Group.

## Corporate Governance Statement (cont'd)

### 7. Ensure Timely and High Quality Disclosure

#### 7.1 Corporate Disclosure Policy

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

#### 7.2 Leverage on Information Technology for Effective Dissemination of Information

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

### 8. Strengthen Relationship between Company and Shareholders

#### 8.1 Encourage Shareholder Participation At General Meetings

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

Notice of the AGM and Annual Report are sent to shareholders 21 days prior to the meeting. At each AGM, the Board presents the performance and progress of the Company and provides shareholders with the opportunity to raise questions pertaining to the Company. The Chairman and the Board will respond to the questions raised by the shareholders during the AGM. Each shareholder can vote in person or by appointing a proxy to attend and vote on his behalf. The Board has also ensured that an explanatory statement will accompany each item of special business included in the notice of meeting on the effects of the proposed resolution.

#### 8.2 Poll Voting

In line with Recommendation 8.29A of the MCCG 2012, the Board would put all the resolutions to vote by poll at the general meetings to be held. All shareholders will be briefed on the voting procedures prior to the poll voting at the general meeting. At the last AGM of the Company held on 19 May 2016, there were no substantive resolutions put forth for shareholders' approval. As such, all resolutions set out in the Notice of the AGM are put to vote by a show of hands instead of a poll.

#### 8.3 Effective Communication and Proactive Engagement

Besides the key channels of communication through the Annual Report, the general meetings and announcements to the Bursa Securities, the Company's website at <http://www.degembhd.com/degem.html> provides corporate, financial and non-financial information. Through the website, shareholders are able to direct enquiries to the Company.

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

The CEO and the Executive Directors are prepared to hold briefings with the press and analysts, when necessary, to provide information on the Group's strategy and performance. Nevertheless, in conducting briefing and dialogue, the Board and the management are mindful of the share price sensitive information and the fair opportunity of information to shareholders and investors.

## Corporate Governance Statement (cont'd)

### Statement of Directors' Responsibility for Preparation of the Financial Statements

The Directors are responsible for ensuring that the annual audited financial statements of the Group and of the Company are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 and the Main Market Listing Requirements of the Bursa Securities so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of their financial performance and cash flows for the year ended on that date.

In preparing the annual audited financial statements, the Directors have:

- adopted the appropriate accounting policies and applied them consistently;
- ensure compliance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965;
- made estimates and judgments which are reasonable and prudent; and
- ensure the financial statements have been prepared on a going concern basis.

The Directors are also responsible for ensuring that proper accounting and other records are kept which enable the preparation of the financial statements with reasonable accuracy and taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This statement was made in accordance with a resolution of the Board dated 21 April 2017.



# Statement on Risk Management and Internal Control

## INTRODUCTION

The Board of Directors (“the Board”) of DEGEM Berhad (“the Company”) is pleased to present the following Statement on Risk Management and Internal Control of the Company and its subsidiaries (“the Group”) for the financial year ended 31 December 2016. This has been prepared in accordance to Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“MMLR”), Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) and the “Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers”.

## BOARD’S RESPONSIBILITIES

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

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



[ soleluna ]  
AGLAIA Clover Necklace

## RISK MANAGEMENT AND RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

## Statement on Risk Management and Internal Control (cont'd)

### KEY ELEMENTS OF INTERNAL CONTROL

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

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

### INTERNAL AUDIT FUNCTIONS

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

The internal audit adopts risk-based internal audit approach in developing its audit plan, which addressed and reviewed the critical business processes, risk and internal control gaps, effectiveness and adequacy of existing state of internal control of the major subsidiaries as well as recommends possible improvements to the internal control process. The internal audit plans are reviewed and approved by the Audit Committee, to provide reasonable assurance that such system continues to operate satisfactorily and effectively within the Group. For the financial year ended 31 December 2016, the total costs incurred for the internal audit function is RM24,000.



## Statement on Risk Management and Internal Control (cont'd)

For the Financial Year Ended 31 December 2016, the following subsidiaries were audited by the independent consulting firm:-

| Audit Period        | Reporting Month | Name of Entity Audited   | Audited Areas   |
|---------------------|-----------------|--|---|
| Apr - Jun 2016      | Aug 2016        | DeGem Berhad and its subsidiaries  | Review of the Risk Register, Risk Matrix and Risk Management Framework.                                 |
| July - Sept 2016    | Nov 2016        | Diamond and Platinum Sdn Bhd<br>DeGem Diamond Collection Sdn Bhd<br>DeGem Prestige Sdn Bhd<br>DeGem Masterpiece Sdn Bhd<br>Inticraft Sdn Bhd | Financial compliance with post GST Implementation   |
| Oct 2016 - Dec 2016 | Feb 2017        | DeGem Berhad and its subsidiaries  | Management Information Services / Information Technology functions and Asset Management (HQ) functions. |

During the financial year under review, the independent consulting firm has presented their status report: follow-up actions on previously reported audited findings in respect of the following subsidiaries of the Group:-

| Follow-up review conducted by independent consulting firm   | Date of Follow up Status Report |
|---|---------------------------------|
| DeGem Groups of companies on Financial compliance with post GST Implementation for Audit Reported in Nov 2016 | 28th Feb 2017                   |

### REVIEW OF STATEMENT BY THE EXTERNAL AUDITORS

The External Auditors have reviewed this Statement on Risk Management and Internal Control pursuant to Paragraph 15.23 of the Bursa Malaysia Listing Requirements, the scope set out in the Recommended Practice Guide ("RPG") 5 (Revised 2015), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the Annual Report of the Group for the year ended 31 December 2016, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be include in the Annual Report of the Group, in all material respects:-

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

RPG 5 (Revised 2015) does not require the External Auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and management thereon. The auditors are also not required to consider whether the process described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

### CONCLUSION

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



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# Audit & Risk Management Committee Report

## ESTABLISHMENT AND COMPOSITION

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

For the financial year ended 31 December 2016, the Audit & Risk Management Committee ("the Committee") comprises the following three(3) Directors:-

Chairman : Mr. Leou Thiam Lai  
(Independent Non-Executive Director)

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

: Dato' Koh Hong Sun  
(Independent Non-Executive Director)  
Appointed on 1/8/2016



  
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## SUMMARY OF THE TERMS OF REFERENCE

### 1. MEMBERSHIP

- 1.1) The Committee shall be appointed by the Board from amongst the Directors of the Company and shall be composed exclusively of Non-Executive Directors of no fewer than three (3) members, of whom the majority shall be independent.
- 1.2) The Committee shall include at least one person who is a member of the Malaysian Institute of Accountants or alternatively a person who must have at least 3 years' working experience and have passed the examinations specified in Part 1 of the 1st Schedule of the Accountants Act 1967 or is a member of one of the associations of accountants specified in Part II of the said Schedule or alternatively a person who has fulfill such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad ("Bursa Securities").
- 1.3) No alternate director shall be appointed as a member of the Committee.
- 1.4) The members of the Committee shall elect from among their number a chairman who is non-executive and independent, as defined above.
- 1.5) If one or more members of the Committee resign, die or for any other reason cease to be a member with the result that the Listing Requirements of the Bursa Securities are breached, the Board shall, within three months of the event, appoint such number of new members as may be required to correct the breach.
- 1.6) The Board shall review the term of office of Committee members no less than once every three years.



## Audit & Risk Management Committee Report (cont'd)

### 2. FUNCTIONS AND RESPONSIBILITIES

- 2.1) The functions of the Committee shall be, amongst others, to review the following and report the same to the Board:-
- (a) the scope of the audit and the audit plan of the external auditors, the results of the annual audit, their audit report and management letter together with management's response;
  - (b) the evaluation of the adequacy and effectiveness of the risk management and internal control systems and to review regular risk management reports from management for risk identification, assessment and management;
  - (c) the assistance given by the employees to the external auditors;
  - (d) the nomination or re-appointment of the external auditors and their audit fees as well as matters pertaining to resignation or change of the external auditors;
  - (e) the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
  - (f) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
  - (g) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
    - (i) any changes in or implementation of major accounting policy changes;
    - (ii) significant adjustments arising from the audit;
    - (iii) significant and unusual events;
    - (iv) the going concern assumption; and
    - (v) compliance with accounting standards and other legal requirements;
  - (h) any related party transaction and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity; and
  - (i) any other matters as directed by the Board.
- 2.2) The Committee shall establish an internal audit function which is independent of the activities it audits.
- 2.3) The Committee shall oversee all internal audit functions and is authorised to commission investigations to be conducted by internal audit as it deems fit.
- 2.4) The internal auditor shall report directly to the Committee and shall have direct access to the Chairman of the Committee.
- 2.5) All proposals by management regarding the appointment, transfer or dismissal of the internal auditor shall require the prior approval of the Committee.

### 3. QUORUM, ATTENDANCE AND FREQUENCY OF MEETINGS

- 3.1) The quorum shall be formed only if there is a majority of members present at the meeting who are independent directors.
- 3.2) The Head of Finance, the Head of Internal Audit, and a representative of the External Auditors shall normally attend meetings by invitation of the Committee. Other Board members and employees may attend any particular meeting only at the Committee's invitation, specific to the relevant meeting. However, at least once a year the Committee shall meet with the External Auditors without executive Board members present.
- 3.3) The Chairman shall call for meetings, to be held not less than four times a year. The External Auditors may request a meeting if they consider one necessary.

### 4. TRAINING

During the year, all the Audit Committee members attended various seminars, training and conferences. Details of the training attended during the year are set out in the Corporate Governance Report on pages 30 to 31 of this Annual Report.

## Audit & Risk Management Committee Report (cont'd)

### 5. COMMITTEE MEETINGS

The Committee met five (5) times during the financial year ended 31 December 2016. The details of Committee's meetings held and attended by the Committee during the financial year are as follows:-

| Name of Member   | No of Committee Meetings<br>Attended/Held* |
|--|--|
| <b>Chairman:</b><br>Leou Thiam Lai<br>(Independent Non-Executive Director)                 | 5/5  |
| <b>Members:</b><br>Datuk Zainun Aishah binti Ahmad<br>(Independent Non-Executive Director) | 5/5  |
| Dato' Koh Hong Sun<br>(Independent Non-Executive Director)<br>Appointed on.1/8/2016        | 2/2*                                       |

\* reflect the number of meetings held during the time the Committee member held office.

### 6. SUMMARY OF ACTIVITIES OF THE COMMITTEE DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

During the financial year ended 31 December 2016, the activities of the Committee included the following: -

#### 6.1 FINANCIAL REPORTING

- Reviewed the unaudited quarterly financial results and announcement and the year end financial statements of DeGem, and recommended them for approval by the Board;
- Discussed the accounting principles and standards that were applied together with the Management and External Auditors ;
- Ensure and confirm that the Group's annual audited Financial Statements have been prepared in accordance with applicable Financial Reporting Standards; and
- Considered the impact of any unusual transactions including related party transactions.

#### 6.2 EXTERNAL AUDIT

- Reviewed the external auditors' reports for the financial year ended 31 December 2016 in relation to audit and accounting issues arising from the audit and the management's response;
- Reviewed the assistance given by the employees to the external auditors in respect of the audit for the financial year ended 31 December 2016;
- Reviewed the external auditors' audit plan and scope of audit for the financial year ended 31 December 2016;
- Met with the external auditors once during the financial year ended 31 December 2016 without presence of any executive members of the Board; and
- Considered the nomination of external auditors for recommendation to the Board of Directors for re-appointment and reviewed the audit fees;



## Audit & Risk Management Committee Report (cont'd)

### 6.3 INTERNAL AUDIT

- (a) Reviewed and approved annual audit plan as proposed by the Internal Auditors;
- (b) Review the audit reports as presented by Internal Auditors as follows:-
  - Review of Internal Audit Charter on 14/4/2016;
  - Review the Risk Register, Risk Matrix and Risk Management on 18/8/2016;
  - Review Internal Audit Report on Goods and Service Tax on 28/11/2016
- (c) The Audit Committee then considered those recommendations including the management's response, before proposing those control weaknesses be ratified and recommendation for improvements be implemented;
- (d) Reviewed the Internal Audit Plan for the financial year ending 31 December 2016, the scope and focus of the internal audit; and
- (e) Reviewed the disclosure Statement on Risk Management and Internal Control for the financial year ended 31 December 2016 and recommended their adoption to the Board;

### INTERNAL AUDIT FUNCTION

The Group has an in-house Internal Audit Department which assists the Audit & Risk Management Committee in the discharge of its duties and responsibilities. During the year, DeGem has on 1 June 2016 appointed an independent consulting firm to provide an independent assessment of the adequacy, efficiency, effectiveness of the Group's internal control system. During the financial year, the cost incurred for the internal audit function in respect of the financial year ended 31 December 2016 is RM24,000.

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

During the financial year under review, the Internal Auditor has conducted audit on the operating functions and procedures of key operating subsidiaries and recommended action plans for management improvement. The final reports containing the audit findings and recommendations together with responses by management were circulated to all members of the Committee. Areas of improvement identified were communicated to the management for further action. All internal audit reports were reviewed by the Committee and discussed at Committee Meetings and recommendations were duly acted upon by the management. Follow-up reviews would subsequently be performed to ascertain the extent of implementation of the recommended corrective action for improvements.



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# Corporate Social Responsibility Statement

DeGem Berhad and its subsidiary companies ("the Group") views the fulfilment of its social responsibilities as seriously as its corporate responsibilities. Therefore, in addition to creating value for its investors, the Group also tries to ensure the wellbeing of factors that made it possible for them to operate effectively.

## *Welfare of Employees*

The Group recognizes that its employees form the foundation of its continuing success. As such, the Group continues to groom its employees towards realizing their fullest potential. To encourage employees to upgrade their professional skills development, a scholarship awards and interest-free education loan program were offered to all employees. In addition, several team-building and training getaways were organized to improve team work and synergy among the departments.

The Group also recognizes the need for a balanced lifestyle in their employees to improve productivity. As such, several sports tournaments were organized as a way of encouraging employees to embrace a healthier lifestyle and to foster better rapport amongst co-workers.

## *Protection of Environment*

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

The Group also ensures that a safe and healthy environment is in place for the wellbeing of its employees, customers, visitors and the general public at its premises.

## *Contributions to Community*

The Group made numerous cash contributions and sponsorships of charitable events in supporting charitable organizations. The beneficiary charitable organization was Arch Home in Old Town, Petaling Jaya; the shelter provided by the Group for homeless children. Another charitable event "Wing of Hope Campaign", a fund raising initiative was held for the benefit of the Malaysian AIDS Council. With the overwhelming support from the stakeholders, an amount of RM43,150 was raised for the Malaysian AIDS Foundation.

In addition, as part of its efforts to educate those interested in the Group's industry, the Group continues to provide sponsorship and training to students of certain colleges that introduced industry-related courses.

## *Responsibility to Marketplace*

The Group has continued to support United Nations General Assembly Resolution 55/56 and requires assurances from their suppliers of diamonds that their sources are certified under the Kimberley Process Certification Scheme ("KPCS"). KPCS is a process introduced by United Nations General Assembly Resolution 55/56 to prevent diamond sales from financing rebellious movements. This certification scheme aims to prevent "blood diamonds" from entering the mainstream rough diamond market. KPCS was set up to assure consumers that by purchasing the diamonds they were not financing war and human rights abuses.

A decorative graphic on the left side of the page features a light-colored, textured ribbon that loops and flows diagonally from the top left towards the bottom left. Two rings are placed on the ribbon. The upper ring has a spherical, cage-like design with multiple circular openings. The lower ring has a flat, circular face with a symmetrical, floral or star-like pattern. Both rings appear to be made of a metallic material.

# Financial Statements

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# Directors' Report

## for the year ended 31 December 2016

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

### Principal activities

The Company is principally engaged in investment holding and the provision of management services, whilst the principal activities of the subsidiaries are as stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

### Ultimate holding company

The Company is a subsidiary of Legion Master Sdn. Bhd., of which is incorporated in Malaysia and regarded by the Directors as the Company's ultimate holding company, during the financial year and until the date of this report.

### Subsidiaries

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

### Results

|                                      | Group<br>RM'000 | Company<br>RM'000 |
|--------------------------------------|-----------------|-------------------|
| Profit for the year attributable to: |                 |                   |
| Owners of the Company                | 10,211          | 3,211             |
| Non-controlling interests            | (122)           | -                 |
|                                      | <u>10,089</u>   | <u>3,211</u>      |

### Reserves and provisions

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

### Dividends

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

- i) In respect of the financial year ended 31 December 2015 as reported in the Directors' Report of that year:
  - a final ordinary dividend of 2.5 sen per ordinary share totalling RM3,271,103 declared on 27 May 2016 and paid on 1 July 2016; and
- ii) In respect of the financial year ended 31 December 2016:
  - an interim ordinary dividend of 1.0 sen per ordinary share totalling RM1,308,401 declared on 29 November 2016 and paid on 28 December 2016.

The final ordinary dividend recommended by the Directors in respect of the financial year ended 31 December 2016 is 1.5 sen per ordinary share respectively totalling RM1,962,602.



## Directors' Report (cont'd)

for the year ended 31 December 2016

### Directors of the Company

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

Dato' Hasan bin M. Taib  
 Datuk Zainun Aishah binti Ahmad  
 Choong Kai Soon  
 Choong Kai Fatt  
 Choong Khoi Onn  
 Choong Kay Cheong  
 Leou Thiam Lai  
 Dato' Koh Hong Sun (appointed on 1 August 2016)  
 Chuah Teong Aung (resigned on 19 May 2016)

### Directors' interests in shares

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

|   | At<br>1.1.2016 | Number of ordinary shares |      | At<br>31.12.2016 |
|---|----------------|---------------------------|------|------------------|
|   |                | Bought                    | Sold |                  |
| Shareholdings in which the Directors have interests |                |                           |      |                  |
| The Company   |                |                           |      |                  |
| Dato' Hasan bin M. Taib                             |                |                           |      |                  |
| - direct interest                                   | 3,000,000      | -                         | -    | 3,000,000        |
| Choong Kai Soon                                     |                |                           |      |                  |
| - deemed interest*#                                 | 73,335,534     | 2,907,700                 | -    | 76,243,234       |
| Choong Kai Fatt                                     |                |                           |      |                  |
| - deemed interest*                                  | 73,060,934     | 2,907,700                 | -    | 75,968,634       |
| Choong Khoi Onn                                     |                |                           |      |                  |
| - direct interest                                   | 760,000        | -                         | -    | 760,000          |
| - deemed interest*                                  | 73,060,934     | 2,907,700                 | -    | 75,968,634       |
| Choong Kay Cheong                                   |                |                           |      |                  |
| - direct interest                                   | 2,508,000      | -                         | -    | 2,508,000        |
| - deemed interest*                                  | 73,060,934     | 2,907,700                 | -    | 75,968,634       |

\* Deemed to have interests by virtue of their direct shareholdings in the ultimate holding company, Legion Master Sdn. Bhd.

# Deemed to have interests through his spouse's, Yeoh Mooi Kim's shareholding of 274,600 ordinary shares by virtue of Section 134(12)(c) of the Companies Act, 1965.

## Directors' Report (cont'd)

for the year ended 31 December 2016

|  | At<br>1.1.2016 | Number of ordinary shares |      | At<br>31.12.2016 |
|--|----------------|---------------------------|------|------------------|
|  |                | Bought                    | Sold |                  |
| Shareholdings in which the Directors have direct interests |                |                           |      |                  |
| Holding company  |                |                           |      |                  |
| Legion Master Sdn. Bhd.                                    |                |                           |      |                  |
| Choong Kai Soon  | 434,434        | -                         | -    | 434,434          |
| Choong Kai Fatt  | 410,077        | -                         | -    | 410,077          |
| Choong Khoi Onn  | 306,743        | -                         | -    | 306,743          |
| Choong Kay Cheong  | 67,461         | -                         | -    | 67,461           |

By virtue of their interests in the shares of the Company, Choong Kai Soon, Choong Kai Fatt, Choong Khoi Onn, and Choong Kay Cheong are also deemed interested in the shares of all subsidiaries during the financial year to the extent that DeGem Berhad has an interest. Details of their deemed shareholdings in non-wholly owned subsidiaries are as follows:

|                           | At<br>1.1.2016 | Number of ordinary shares |      | At<br>31.12.2016 |
|---------------------------|----------------|---------------------------|------|------------------|
|                           |                | Bought                    | Sold |                  |
| DeGem Prestige Sdn. Bhd.  | 1,800,000      | -                         | -    | 1,800,000        |
| Titanpuri Sdn. Bhd.       | 2,000          | -                         | -    | 2,000            |
| Solireno Sdn. Bhd.        | 245,000        | -                         | -    | 245,000          |
| Bestline Design Sdn. Bhd. | -              | 140,001                   | -    | 140,001          |

|  | At<br>1.1.2016 | Number of ordinary shares of HKD1.00 each |      | At<br>31.12.2016 |
|--|----------------|---|------|------------------|
|  |                | Bought                                    | Sold |                  |
| Bestline International Corporation Limited | 7,000,000      | -   | -    | 7,000,000        |
| Bestline Limited                           | -              | 7,000                                     | -    | 7,000            |

|                             | At<br>1.1.2016 | Number of ordinary shares of SGD1.00 each |      | At<br>31.12.2016 |
|-----------------------------|----------------|---|------|------------------|
|                             |                | Bought                                    | Sold |                  |
| DeGem Masterpiece Pte. Ltd. | 1,800,000      | -   | -    | 1,800,000        |

None of the other Directors holding office at 31 December 2016 had any interest in the shares of the Company and of its related corporations during the financial year.

### Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

## Directors' Report (cont'd)

for the year ended 31 December 2016

### Issue of shares and debentures

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

There were no debentures issued during the financial year.

### Treasury shares

During the financial year, the Company repurchased 6,000 of its issued ordinary shares for a total cash consideration of RM5,553 from the open market at an average price of RM0.92 per share. As at 31 December 2016, total treasury shares held by the Company was 3,159,900.

### Options granted over unissued shares

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

### Indemnity and insurance costs

During the financial year, the total amount of indemnity given to Director of the Company is RM5.0 million.

### Other statutory information

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

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

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

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

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

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

## Directors' Report (cont'd)

for the year ended 31 December 2016

### Other statutory information (cont'd)

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2016 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

### Auditors

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), retire and are not seeking re-appointment.

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

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

.....  
**Choong Kai Fatt**

Director

.....  
**Choong Khoi Onn**

Director

Kuala Lumpur,

Date: 21 April 2017

# Statements of Financial Position

as at 31 December 2016

|   |      | Group          |                | Company       |               |
|---|------|----------------|----------------|---------------|---------------|
|   | Note | 2016           | 2015           | 2016          | 2015          |
|   |      | RM'000         | RM'000         | RM'000        | RM'000        |
| <b>Assets</b>                                       |      |                |                |               |               |
| Property, plant and equipment                       | 3    | 30,073         | 35,067         | -             | -             |
| Investment properties                               | 4    | 29,951         | 25,867         | -             | -             |
| Goodwill  | 5    | 87             | -              | -             | -             |
| Investments in subsidiaries                         | 6    | -              | -              | 54,300        | 54,300        |
| Deferred tax assets                                 | 7    | 822            | 847            | 25            | 25            |
| <b>Total non-current assets</b>                     |      | <b>60,933</b>  | <b>61,781</b>  | <b>54,325</b> | <b>54,325</b> |
| Inventories   | 8    | 210,324        | 199,666        | -             | -             |
| Trade and other receivables                         | 9    | 23,348         | 21,800         | 24,836        | 23,318        |
| Prepayments   |      | 1,091          | 1,182          | -             | 55            |
| Current tax assets                                  |      | 1,712          | 2,362          | -             | -             |
| Cash and cash equivalents                           | 10   | 47,324         | 40,255         | 523           | 1,682         |
| <b>Total current assets</b>                         |      | <b>283,799</b> | <b>265,265</b> | <b>25,359</b> | <b>25,055</b> |
| <b>Total assets</b>                                 |      | <b>344,732</b> | <b>327,046</b> | <b>79,684</b> | <b>79,380</b> |
| <b>Equity</b>                                       |      |                |                |               |               |
| Share capital                                       | 11   | 67,000         | 67,000         | 67,000        | 67,000        |
| Share premium                                       | 11   | 10,435         | 10,435         | 10,435        | 10,435        |
| Reserves  | 11   | 168,311        | 160,780        | (1,008)       | 366           |
| <b>Equity attributable to owners of the Company</b> |      | <b>245,746</b> | <b>238,215</b> | <b>76,427</b> | <b>77,801</b> |
| <b>Non-controlling interests</b>                    |      | <b>13,906</b>  | <b>13,516</b>  | <b>-</b>      | <b>-</b>      |
| <b>Total equity</b>                                 |      | <b>259,652</b> | <b>251,731</b> | <b>76,427</b> | <b>77,801</b> |
| <b>Liabilities</b>                                  |      |                |                |               |               |
| Loans and borrowings                                | 12   | 40,514         | 36,987         | -             | -             |
| Deferred tax liabilities                            | 7    | 401            | 375            | -             | -             |
| <b>Total non-current liabilities</b>                |      | <b>40,915</b>  | <b>37,362</b>  | <b>-</b>      | <b>-</b>      |
| Loans and borrowings                                | 12   | 6,014          | 7,397          | 3,000         | 1,000         |
| Trade and other payables                            | 13   | 35,833         | 27,786         | 187           | 160           |
| Deferred revenue                                    | 14   | 1,192          | 1,222          | -             | -             |
| Current tax liabilities                             |      | 1,126          | 1,548          | 70            | 419           |
| <b>Total current liabilities</b>                    |      | <b>44,165</b>  | <b>37,953</b>  | <b>3,257</b>  | <b>1,579</b>  |
| <b>Total liabilities</b>                            |      | <b>85,080</b>  | <b>75,315</b>  | <b>3,257</b>  | <b>1,579</b>  |
| <b>Total equity and liabilities</b>                 |      | <b>344,732</b> | <b>327,046</b> | <b>79,684</b> | <b>79,380</b> |

The notes on pages 58 to 107 are an integral part of these financial statements.



# Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

|   | Note | Group          |                | Company        |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 2016<br>RM'000 | 2015<br>RM'000 | 2016<br>RM'000 | 2015<br>RM'000 |
| <b>Revenue</b>  | 15   | 186,676        | 191,407        | 5,541          | 2,829          |
| Cost of sales   |      | (101,826)      | (109,177)      | -              | -              |
| <b>Gross profit</b>   |      | 84,850         | 82,230         | 5,541          | 2,829          |
| Other income  |      | 2,010          | 5,524          | 1              | 644            |
| Administrative expenses   |      | (59,968)       | (57,539)       | (754)          | (705)          |
| Other operating expenses  |      | (10,609)       | (11,753)       | (1,544)        | (91)           |
| <b>Results from operating activities</b>                        |      | 16,283         | 18,462         | 3,244          | 2,677          |
| Finance income  | 16   | 122            | 94             | -              | -              |
| Finance costs   | 17   | (1,718)        | (1,472)        | (101)          | (335)          |
| <b>Net finance costs</b>  |      | (1,596)        | (1,378)        | (101)          | (335)          |
| <b>Profit before tax</b>  |      | 14,687         | 17,084         | 3,143          | 2,342          |
| Tax expense   | 19   | (4,598)        | (5,844)        | 68             | (557)          |
| <b>Profit for the year</b>                                      | 18   | 10,089         | 11,240         | 3,211          | 1,785          |
| <b>Other comprehensive income, net of tax</b>                   |      |                |                |                |                |
| <b>Item that is or may be reclassified</b>                      |      |                |                |                |                |
| <b>subsequently to profit or loss</b>                           |      |                |                |                |                |
| Foreign currency translation differences for foreign operations |      | 2,417          | 11,666         | -              | -              |
| <b>Total comprehensive income for the year</b>                  |      | 12,506         | 22,906         | 3,211          | 1,785          |
| <b>Profit attributable to:</b>                                  |      |                |                |                |                |
| Owners of the Company   |      | 10,211         | 10,748         | 3,211          | 1,785          |
| Non-controlling interests                                       |      | (122)          | 492            | -              | -              |
| <b>Profit for the year</b>                                      |      | 10,089         | 11,240         | 3,211          | 1,785          |
| <b>Total comprehensive income attributable to:</b>              |      |                |                |                |                |
| Owners of the Company   |      | 12,116         | 20,316         | 3,211          | 1,785          |
| Non-controlling interests                                       |      | 390            | 2,590          | -              | -              |
| <b>Total comprehensive income for the year</b>                  |      | 12,506         | 22,906         | 3,211          | 1,785          |
| <b>Basic earnings per ordinary share (sen)</b>                  | 20   | 7.80           | 8.21           |                |                |

The notes on pages 58 to 107 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

| Group   | Note | /-----Attributable to owners of the Company-----/ |               |                       |                     |                 |                   |         | /-----Non-distributable-----/ Distributable |              |
|---|------|---|---------------|-----------------------|---------------------|-----------------|-------------------|---------|---|--------------|
|   |      | Share capital                                     | Share premium | Other capital reserve | Translation reserve | Treasury shares | Retained earnings | Total   | Non-controlling interests                   | Total equity |
|   |      | RM'000  | RM'000        | RM'000                | RM'000              | RM'000          | RM'000            | RM'000  | RM'000                                      | RM'000       |
| <b>At 1 January 2015</b>  |      | 67,000  | 10,435        | 2,500                 | 2,075               | (3,166)         | 141,041           | 219,885 | 10,926                                      | 230,811      |
| Foreign currency translation differences for foreign operations |      | -   | -             | -                     | 9,568               | -               | -                 | 9,568   | 2,098                                       | 11,666       |
| Total other comprehensive income for the year                   |      | -   | -             | -                     | 9,568               | -               | -                 | 9,568   | 2,098                                       | 11,666       |
| Profit for the year   |      | -   | -             | -                     | -                   | -               | 10,748            | 10,748  | 492   | 11,240       |
| <b>Total comprehensive income for the year</b>                  |      | -   | -             | -                     | 9,568               | -               | 10,748            | 20,316  | 2,590                                       | 22,906       |
| Contributions by and distributions to owners of the Company     |      |   |               |                       |                     |                 |                   |         |   |              |
| - Own shares acquired   |      | -   | -             | -                     | -                   | (23)            | -                 | (23)    | -   | (23)         |
| - Dividends to shareholders                                     | 21   | -   | -             | -                     | -                   | -               | (1,963)           | (1,963) | -   | (1,963)      |
| <b>Total transactions with owners of the Company</b>            |      | -   | -             | -                     | -                   | (23)            | (1,963)           | (1,986) | -   | (1,986)      |
| <b>At 31 December 2015</b>                                      |      | 67,000  | 10,435        | 2,500                 | 11,643              | (3,189)         | 149,826           | 238,215 | 13,516                                      | 251,731      |
|   |      | Note 11.1   | Note 11.2     | Note 11.3             | Note 11.4           | Note 11.5       |                   |         |   |              |

## Consolidated Statement of Changes in Equity (cont'd)

for the year ended 31 December 2016

| Group   | Note   | /-----Attributable to owners of the Company-----/ |               |                       |                     |                 |                   | /-----Non-distributable-----/Distributable |                           |              |
|---|--------|---|---------------|-----------------------|---------------------|-----------------|-------------------|--|---------------------------|--------------|
|   |        | Share capital                                     | Share premium | Other capital reserve | Translation reserve | Treasury shares | Retained earnings | Total                                      | Non-controlling interests | Total equity |
|   |        |   |               |                       |                     |                 |                   |  |                           |              |
|   |        |   |               |                       |                     |                 |                   |  |                           |              |
| RM'000  | RM'000 | RM'000  | RM'000        | RM'000                | RM'000              | RM'000          | RM'000            | RM'000                                     | RM'000                    |              |
| At 1 January 2016   |        | 67,000  | 10,435        | 2,500                 | 11,643              | (3,189)         | 149,826           | 238,215                                    | 13,516                    | 251,731      |
| Foreign currency translation differences for foreign operations |        | -   | -             | -                     | 1,905               | -               | -                 | 1,905                                      | 512                       | 2,417        |
| Total other comprehensive income for the year                   |        | -   | -             | -                     | 1,905               | -               | -                 | 1,905                                      | 512                       | 2,417        |
| Profit for the year   |        | -   | -             | -                     | -                   | -               | 10,211            | 10,211                                     | (122)                     | 10,089       |
| Total comprehensive income for the year                         |        | -   | -             | -                     | 1,905               | -               | 10,211            | 12,116                                     | 390                       | 12,506       |
| Contributions by and distributions to owners of the Company     |        |   |               |                       |                     |                 |                   |  |                           |              |
| - Own shares acquired   |        | -   | -             | -                     | -                   | (5)             | -                 | (5)  | -                         | (5)          |
| - Dividends to shareholders                                     | 21     | -   | -             | -                     | -                   | -               | (4,580)           | (4,580)                                    | -                         | (4,580)      |
| Total transactions with owners of the Company                   |        | -   | -             | -                     | -                   | (5)             | (4,580)           | (4,585)                                    | -                         | (4,585)      |
| At 31 December 2016   |        | 67,000  | 10,435        | 2,500                 | 13,548              | (3,194)         | 155,457           | 245,746                                    | 13,906                    | 259,652      |
|   |        | Note 11.1   | Note 11.2     | Note 11.3             | Note 11.4           | Note 11.5       |                   |  |                           |              |

The notes on pages 58 to 107 are an integral part of these financial statements.

# Statement of Changes in Equity

for the year ended 31 December 2016

| Company  | Note | /-----Attributable to owners of the Company-----/ |               |                 |                   |              |
|--|------|---|---------------|-----------------|-------------------|--------------|
|  |      | /-----Non-distributable-----/                     |               | Distributable   |                   | Total equity |
|  |      | Share capital                                     | Share premium | Treasury shares | Retained earnings |              |
|  |      | RM'000  | RM'000        | RM'000          | RM'000            | RM'000       |
| <b>At 1 January 2015</b>   |      | 67,000  | 10,435        | (3,166)         | 3,733             | 78,002       |
| <b>Profit and total comprehensive income for the year</b>          |      | -   | -             | -               | 1,785             | 1,785        |
| <i>Contributions by and distributions to owners of the Company</i> |      |   |               |                 |                   |              |
| - Own shares acquired  |      | -   | -             | (23)            | -                 | (23)         |
| - Dividends to shareholders  | 21   | -   | -             | -               | (1,963)           | (1,963)      |
| <b>Total transactions with owners of the Company</b>               |      | -   | -             | (23)            | (1,963)           | (1,986)      |
| <b>At 31 December 2015/<br/>1 January 2016</b>                     |      | 67,000  | 10,435        | (3,189)         | 3,555             | 77,801       |
| <b>Profit and total comprehensive income for the year</b>          |      | -   | -             | -               | 3,211             | 3,211        |
| <i>Contributions by and distributions to owners of the Company</i> |      |   |               |                 |                   |              |
| - Own shares acquired  |      | -   | -             | (5)             | -                 | (5)          |
| - Dividends to shareholders  | 21   | -   | -             | -               | (4,580)           | (4,580)      |
| <b>Total transactions with owners of the Company</b>               |      | -   | -             | (5)             | (4,580)           | (4,585)      |
| <b>At 31 December 2016</b>   |      | 67,000  | 10,435        | (3,194)         | 2,186             | 76,427       |
|  |      | Note 11.1   | Note 11.2     | Note 11.5       |                   |              |

The notes on pages 58 to 107 are an integral part of these financial statements.

# Statements of Cash Flows

for the year ended 31 December 2016

|  |      | Group    |         | Company |         |
|--|------|----------|---------|---------|---------|
|  | Note | 2016     | 2015    | 2016    | 2015    |
|  |      | RM'000   | RM'000  | RM'000  | RM'000  |
| <b>Cash flows from operating activities</b>          |      |          |         |         |         |
| Profit before tax                                    |      | 14,687   | 17,084  | 3,143   | 2,342   |
| <i>Adjustments for:</i>                              |      |          |         |         |         |
| Depreciation of investment properties                | 4    | 364      | 287     | -       | -       |
| Depreciation of property, plant and equipment        | 3    | 3,518    | 3,404   | -       | -       |
| Dividend income                                      |      | -        | -       | (4,396) | (1,448) |
| Finance income                                       | 16   | (122)    | (94)    | (1,145) | (1,381) |
| Finance costs  | 17   | 1,718    | 1,472   | 101     | 335     |
| Gain on disposal of property,<br>plant and equipment |      | (247)    | -       | -       | -       |
| Impairment loss on trade receivables                 |      | 1,408    | -       | -       | -       |
| Impairment on amount due from a subsidiary           |      | -        | -       | 1,507   | -       |
| Inventories written down                             |      | 383      | -       | -       | -       |
| Investment properties written off                    |      | 1        | -       | -       | -       |
| Negative goodwill                                    |      | (215)    | -       | -       | -       |
| Property, plant and equipment written off            |      | 714      | 141     | -       | -       |
| Reversal of impairment loss on trade receivables     |      | (391)    | -       | -       | -       |
| Reversal of inventories written down                 |      | (111)    | -       | -       | -       |
| Unrealised foreign exchange differences              |      | (15)     | 80      | -       | -       |
| <b>Operating profit/(loss) before</b>                |      |          |         |         |         |
| <b>changes in working capital</b>                    |      | 21,692   | 22,374  | (790)   | (152)   |
| Change in inventories                                |      | (10,930) | (3,311) | -       | -       |
| Change in trade and other receivables, prepayments   |      | 8,725    | (1,455) | (2,969) | 10,426  |
| Change in trade and other payables, deferred revenue |      | (4,908)  | (3,485) | 26      | (18)    |
| <b>Cash generated from/(used in) operations</b>      |      |          |         |         |         |
|  |      | 14,579   | 14,123  | (3,733) | 10,256  |
| Dividend received                                    |      | -        | -       | 4,396   | 1,448   |
| Interest received                                    |      | 122      | 94      | 1,145   | 1,381   |
| Interest paid  |      | (287)    | (216)   | (101)   | (335)   |
| Tax paid   |      | (4,883)  | (7,230) | (281)   | (232)   |
| Tax refund   |      | 576      | 134     | -       | -       |
| <b>Net cash from operating activities</b>            |      |          |         |         |         |
|  |      | 10,107   | 6,905   | 1,426   | 12,518  |



## Statements of Cash Flows (cont'd)

for the year ended 31 December 2016

|   |      | Group   |          | Company |          |
|---|------|---------|----------|---------|----------|
|   | Note | 2016    | 2015     | 2016    | 2015     |
|   |      | RM'000  | RM'000   | RM'000  | RM'000   |
| <b>Cash flows from investing activities</b>                   |      |         |          |         |          |
| Acquisition of investment properties                          |      | -       | (8,191)  | -       | -        |
| Acquisition of property, plant and equipment                  | (ii) | (2,092) | (3,717)  | -       | -        |
| Acquisition of subsidiaries, net of cash and cash equivalents | 27   | 1,087   | -        | -       | -        |
| Proceeds from disposal of property, plant and equipment       |      | 363     | 12       | -       | -        |
| <b>Net cash used in investing activities</b>                  |      | (642)   | (11,896) | -       | -        |
| <b>Cash flows from financing activities</b>                   |      |         |          |         |          |
| Dividends paid to owners of the Company                       | 21   | (4,580) | (1,963)  | (4,580) | (1,963)  |
| Interest paid   |      | (1,431) | (1,256)  | -       | -        |
| Net proceeds/(repayment) of loans and borrowings              |      | 5,252   | 2,482    | 2,000   | (9,784)  |
| Repayment of finance lease liabilities                        |      | (401)   | (478)    | -       | -        |
| Repurchase of treasury shares                                 |      | (5)     | (23)     | (5)     | (23)     |
| <b>Net cash used in financing activities</b>                  |      | (1,165) | (1,238)  | (2,585) | (11,770) |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |      | 8,300   | (6,229)  | (1,159) | 748      |
| Effect of exchange rate fluctuations on cash held             |      | 2,368   | 11,070   | -       | -        |
| Cash and cash equivalents at 1 January                        |      | 36,656  | 31,815   | 1,682   | 934      |
| <b>Cash and cash equivalents at 31 December</b>               | (i)  | 47,324  | 36,656   | 523     | 1,682    |

### *i) Cash and cash equivalents*

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

|                                     |      | Group  |         | Company |        |
|-------------------------------------|------|--------|---------|---------|--------|
|                                     | Note | 2016   | 2015    | 2016    | 2015   |
|                                     |      | RM'000 | RM'000  | RM'000  | RM'000 |
| Cash and bank balances              | 10   | 39,351 | 35,210  | 173     | 123    |
| Deposits placed with licensed banks | 10   | 7,973  | 5,045   | 350     | 1,559  |
| Bank overdraft                      | 12   | -      | (3,599) | -       | -      |
|                                     |      | 47,324 | 36,656  | 523     | 1,682  |

### *ii) Acquisition of property, plant and equipment*

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM2,292,000 (2015: RM4,017,000), of which RM200,000 (2015: RM300,000) were acquired by means of finance lease arrangements.

# Notes to the Financial Statements

DeGem Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office and principal place of business is as follows:

**Registered office/Principal place of business**

No. 42, 1st Floor  
Jalan Maarof  
Bangsar Baru  
59100 Kuala Lumpur  
Malaysia

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”). The financial statements of the Company as at and for the financial year ended 31 December 2016 do not include other entities.

The Company is principally engaged in investment holding and the provision of management services, whilst the principal activities of the subsidiaries are as stated in Note 6 to the financial statements.

The ultimate holding company during the financial year is Legion Master Sdn. Bhd., a company incorporated in Malaysia.

These financial statements were authorised for issue by the Board of Directors on 21 April 2017.

## 1. Basis of preparation

### (a) Statement of compliance

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017**

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities* (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

**MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018**

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures* (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

- MFRS 16, *Leases*

## Notes to the Financial Statements (cont'd)

### 1. Basis of preparation (cont'd)

#### (a) Statement of compliance (cont'd)

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

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

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

- from the annual period beginning on 1 January 2017 for those amendments that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for Amendments to MFRS 1, Amendments to MFRS 2, Amendments to MFRS 4, and Amendments to MFRS 128 which are not applicable to the Group.
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

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

##### **(i) MFRS 15, Revenue from Contracts with Customers**

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Group will assess the financial impact that may arise from the adoption of MFRS 15.

##### **(ii) MFRS 9, Financial Instruments**

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

The Group will assess the financial impact that may arise from the adoption of MFRS 9.

##### **(iii) MFRS 16, Leases**

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

The Group will assess the financial impact that may arise from the adoption of MFRS 16.

#### **(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis other than as disclosed in the Note 2.

#### **(c) Functional and presentation currency**

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

## Notes to the Financial Statements (cont'd)

### 1. Basis of preparation (cont'd)

#### (d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 8 – Valuation of inventories
- Note 9 – Impairment of receivables

### 2. Significant accounting policies

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

#### (a) Basis of consolidation

##### (i) Subsidiaries

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

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

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

##### (ii) Business combinations

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

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

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

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (a) Basis of consolidation

##### (ii) Business combinations

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

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

##### (iii) Acquisitions of non-controlling interests

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

##### (iv) Loss of control

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

##### (v) Non-controlling interests

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

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

##### (vi) Transactions eliminated on consolidation

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

#### (b) Foreign currency

##### (i) Foreign currency transactions

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

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

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



## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (b) Foreign currency (cont'd)

##### (i) Foreign currency transactions (cont'd)

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

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

##### (ii) Operations denominated in functional currencies other than Ringgit Malaysia

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

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

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

#### (c) Financial instruments

##### (i) Initial recognition and measurement

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

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

##### (ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

##### **Financial assets**

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

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

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (c) Financial instruments (cont'd)

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

###### Financial assets (cont'd)

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

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

###### (b) Loans and receivables

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

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

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

###### Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

##### (iii) Financial guarantee contracts

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

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

##### (iv) Derecognition

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

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (d) Property, plant and equipment

##### (i) Recognition and measurement

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

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

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

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

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

##### (ii) Subsequent costs

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

##### (iii) Depreciation

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

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

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

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

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (e) Leased assets

##### (i) Finance lease

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

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

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

##### (ii) Operating lease

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

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

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

#### (f) Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment loss.

Goodwill are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

#### (g) Investment properties

##### (i) Investment property carried at cost

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

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

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (g) Investment properties (cont'd)

##### (i) Investment property carried at cost (cont'd)

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

- Leasehold land                      60 - 93 years
- Buildings                              50 years

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

##### (ii) Determination of fair value

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

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Note 2(u)).

#### (h) Inventories

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

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

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

#### (i) Cash and cash equivalents

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

#### (j) Impairment

##### (i) Financial assets

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

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



## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (j) Impairment (cont'd)

##### (i) Financial assets (cont'd)

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

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

##### (ii) Other assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

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

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (k) Equity instruments

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

##### (i) Issue expenses

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

##### (ii) Ordinary shares

Ordinary shares are classified as equity.

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

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

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

#### (l) Employee benefits

##### (i) Short-term employee benefits

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

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

##### (ii) State plans

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

#### (m) Deferred revenue

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

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

#### (n) Provisions

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

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (o) Revenue and other income

##### (i) Goods sold

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

##### (ii) Revenue on reward points

Revenue on reward points is recognised based on the number of reward points that have been redeemed in exchange for free or discounted goods, relative to the total number of reward points expected to be redeemed.

##### (iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Rental income from sub-leased property is recognised as other income.

##### (iv) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established.

##### (v) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

#### (p) Borrowing costs

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

#### (q) Income tax

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

## Notes to the Financial Statements (cont'd)

### 2. Significant accounting policies (cont'd)

#### (q) Income tax (cont'd)

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

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

#### (r) Earnings per ordinary share

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

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

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

#### (s) Operating segments

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

#### (t) Contingent liabilities

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

#### (u) Fair value measurement

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

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

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

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

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

Level 3 : unobservable inputs for the asset or liability.

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

## Notes to the Financial Statements (cont'd)

### 3. Property, plant and equipment

| Group  | Note | Plant,<br>equipment<br>and fittings |           |             |          |         | Motor    | Total |
|--|------|-------------------------------------|-----------|-------------|----------|---------|----------|-------|
|  |      | Land                                | Buildings | Renovations | vehicles |         |          |       |
|  |      | RM'000                              | RM'000    | RM'000      | RM'000   | RM'000  |          |       |
| <b>Cost</b>                                  |      |                                     |           |             |          |         |          |       |
| 1 January 2015                               |      | 10,276                              | 27,071    | 14,051      | 5,509    | 5,069   | 61,976   |       |
| Additions                                    |      | -                                   | 437       | 1,603       | 1,385    | 592     | 4,017    |       |
| Disposals                                    |      | -                                   | -         | (52)        | -        | -       | (52)     |       |
| Written off                                  |      | -                                   | -         | (666)       | (308)    | -       | (974)    |       |
| Transfer to investment properties            | 4    | -                                   | (11,385)  | -           | -        | -       | (11,385) |       |
| Reclassification                             |      | 4,386                               | (4,386)   | -           | -        | -       | -        |       |
| Effect of movements in exchange rates        |      | -                                   | -         | 111         | 129      | 28      | 268      |       |
| At 31 December 2015/1 January 2016           |      | 14,662                              | 11,737    | 15,047      | 6,715    | 5,689   | 53,850   |       |
| Additions                                    |      | -                                   | -         | 578         | 1,301    | 413     | 2,292    |       |
| Disposals                                    |      | -                                   | -         | (33)        | (15)     | (1,024) | (1,072)  |       |
| Written off                                  |      | -                                   | -         | (1,647)     | (528)    | -       | (2,175)  |       |
| Transfer to investment properties            | 4    | (2,292)                             | (2,196)   | -           | -        | -       | (4,488)  |       |
| Acquisitions through<br>business combination | 27   | -                                   | 990       | 137         | 209      | 44      | 1,380    |       |
| Effect of movements in exchange rates        |      | -                                   | -         | 32          | 41       | 5       | 78       |       |
| At 31 December 2016                          |      | 12,370                              | 10,531    | 14,114      | 7,723    | 5,127   | 49,865   |       |
| <b>Accumulated depreciation</b>              |      |                                     |           |             |          |         |          |       |
| At 1 January 2015                            |      | 197                                 | 1,834     | 8,642       | 3,163    | 2,591   | 16,427   |       |
| Depreciation for the year                    |      | 22                                  | 252       | 1,176       | 1,014    | 940     | 3,404    |       |
| Disposals                                    |      | -                                   | -         | (40)        | -        | -       | (40)     |       |
| Written off                                  |      | -                                   | -         | (586)       | (247)    | -       | (833)    |       |
| Transfer to investment properties            | 4    | -                                   | (328)     | -           | -        | -       | (328)    |       |
| Reclassification                             |      | 54                                  | (54)      | -           | -        | -       | -        |       |
| Effect of movements in exchange rates        |      | -                                   | -         | 55          | 71       | 27      | 153      |       |
| At 31 December 2015/1 January 2016           |      | 273                                 | 1,704     | 9,247       | 4,001    | 3,558   | 18,783   |       |
| Depreciation for the year                    |      | 21                                  | 195       | 1,206       | 1,219    | 877     | 3,518    |       |
| Disposals                                    |      | -                                   | -         | (12)        | (8)      | (936)   | (956)    |       |
| Written off                                  |      | -                                   | -         | (1,004)     | (457)    | -       | (1,461)  |       |
| Transfer to investment properties            | 4    | (54)                                | (88)      | -           | -        | -       | (142)    |       |
| Effect of movements in exchange rates        |      | -                                   | -         | 16          | 29       | 5       | 50       |       |
| At 31 December 2016                          |      | 240                                 | 1,811     | 9,453       | 4,784    | 3,504   | 19,792   |       |
| <b>Carrying amounts</b>                      |      |                                     |           |             |          |         |          |       |
| At 1 January 2015                            |      | 10,079                              | 25,237    | 5,409       | 2,346    | 2,478   | 45,549   |       |
| At 31 December 2015/1 January 2016           |      | 14,389                              | 10,033    | 5,800       | 2,714    | 2,131   | 35,067   |       |
| At 31 December 2016                          |      | 12,130                              | 8,720     | 4,661       | 2,939    | 1,623   | 30,073   |       |

## Notes to the Financial Statements (cont'd)

### 3. Property, plant and equipment (cont'd)

#### 3.1 Land

Included in the carrying amounts of land are:

|  | Group         |               |
|--|---------------|---------------|
|  | 2016          | 2015          |
|  | RM'000        | RM'000        |
| Freehold land  | 10,578        | 10,578        |
| Long term leasehold land with unexpired lease period of more than 50 years | 1,552         | 3,811         |
|  | <u>12,130</u> | <u>14,389</u> |

#### 3.2 Security

The land and buildings of the Group with a carrying amount of RM20,849,000 (2015: RM24,422,000) are pledged as security for borrowing facilities extended by financial institutions to the subsidiaries (see Note 12).

#### 3.3 Property, plant and equipment under finance lease arrangements

Included in property, plant and equipment of the Group are motor vehicles under finance lease arrangements with carrying amounts of RM1,099,000 (2015: RM1,448,000).

### 4. Investment properties

| Group                                       | Note | Leasehold<br>land<br>RM'000 | Freehold<br>land<br>RM'000 | Buildings<br>RM'000 | Total<br>RM'000 |
|---|------|-----------------------------|----------------------------|---------------------|-----------------|
| <b>Cost</b>                                 |      |                             |                            |                     |                 |
| At 1 January 2015                           |      | 175                         | -                          | 6,956               | 7,131           |
| Additions                                   |      | -                           | 7,313                      | 878                 | 8,191           |
| Transfer from property, plant and equipment | 3    | -                           | 5,924                      | 5,461               | 11,385          |
| Reclassification                            |      | -                           | 137                        | (137)               | -               |
| Effect of movements in exchange rates       |      | -                           | -                          | 705                 | 705             |
| At 31 December 2015/1 January 2016          |      | 175                         | 13,374                     | 13,863              | 27,412          |
| Transfer from property, plant and equipment | 3    | 2,292                       | -                          | 2,196               | 4,488           |
| Write off                                   |      | -                           | -                          | (5)                 | (5)             |
| Effect of movements in exchange rates       |      | -                           | -                          | 118                 | 118             |
| At 31 December 2016                         |      | <u>2,467</u>                | <u>13,374</u>              | <u>16,172</u>       | <u>32,013</u>   |



## Notes to the Financial Statements (cont'd)

### 4. Investment properties (cont'd)

| Group   | Note | Leasehold<br>land<br>RM'000 | Freehold<br>land<br>RM'000 | Buildings<br>RM'000 | Total<br>RM'000 |
|---|------|-----------------------------|----------------------------|---------------------|-----------------|
| <b>Accumulated depreciation and<br/>Accumulated impairment losses</b> |      |                             |                            |                     |                 |
| At 1 January 2015   |      |                             |                            |                     |                 |
| Accumulated depreciation  |      | 50                          | -                          | 677                 | 727             |
| Accumulated impairment loss   |      | -                           | -                          | 148                 | 148             |
|   |      | 50                          | -                          | 825                 | 875             |
| Depreciation for the year   |      | 3                           | -                          | 284                 | 287             |
| Transfer from property, plant and equipment                           | 3    | -                           | -                          | 328                 | 328             |
| Reclassification on impairment loss                                   |      | -                           | 137                        | (137)               | -               |
| Effect of movements in exchange rates                                 |      | -                           | -                          | 55                  | 55              |
| At 31 December 2015/1 January 2016                                    |      |                             |                            |                     |                 |
| Accumulated depreciation  |      | 53                          | -                          | 1,344               | 1,397           |
| Accumulated impairment loss   |      | -                           | 137                        | 11                  | 148             |
|   |      | 53                          | 137                        | 1,355               | 1,545           |
| Depreciation for the year   |      | 35                          | -                          | 329                 | 364             |
| Transfer from property, plant and equipment                           | 3    | 54                          | -                          | 88                  | 142             |
| Write off   |      | -                           | -                          | (4)                 | (4)             |
| Effect of movements in exchange rates                                 |      | -                           | -                          | 15                  | 15              |
| At 31 December 2016   |      |                             |                            |                     |                 |
| Accumulated depreciation  |      | 142                         | -                          | 1,772               | 1,914           |
| Accumulated impairment loss   |      | -                           | 137                        | 11                  | 148             |
|   |      | 142                         | 137                        | 1,783               | 2,062           |
| <b>Carrying amounts</b>   |      |                             |                            |                     |                 |
| At 1 January 2015   |      | 125                         | -                          | 6,131               | 6,256           |
| At 31 December 2015/ 1 January 2016                                   |      | 122                         | 13,237                     | 12,508              | 25,867          |
| At 31 December 2016   |      | 2,325                       | 13,237                     | 14,389              | 29,951          |
| Included in the above are:  |      |                             |                            |                     |                 |
|   |      |                             | <b>2016</b>                | <b>2015</b>         |                 |
|   |      |                             | <b>RM'000</b>              | <b>RM'000</b>       |                 |
| <i>At fair value</i>  |      |                             |                            |                     |                 |
| Buildings   |      |                             | 21,257                     | 12,902              |                 |
| Freehold land   |      |                             | 23,560                     | 17,324              |                 |
| Leasehold land with unexpired lease period of less than 50 years      |      |                             | 4,834                      | 806                 |                 |
|   |      |                             | 49,651                     | 31,032              |                 |

## Notes to the Financial Statements (cont'd)

### 4. Investment properties (cont'd)

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

|   | Group  |        |
|---|--------|--------|
|   | 2016   | 2015   |
|   | RM'000 | RM'000 |
| Rental income                                 | 981    | 626    |
| Direct operating expenses:                    |        |        |
| - income generating investment properties     | 130    | 128    |
| - non-income generating investment properties | 1      | 1      |

#### 4.1 Security

Investment properties of the Group with a carrying amount of RM24,749,000 (2015: RM20,634,000) have been charged to secure banking facilities granted to the subsidiaries (see Note 12).

#### 4.2 Title

The transfer of the strata title for the leasehold land and buildings with a carrying amount of RM5,818,000 (2015: RM5,951,000) is still pending as at 31 December 2016.

#### 4.3 Building held in trust

Included in investment properties of the Group is a building held in trust for the Group by a Director with carrying amount of RM4,997,000 (2015: RM5,009,000).

#### 4.4 Fair value information

Fair value of investment properties are categorised at level 3.

|                              | Group   |        |         |        |
|------------------------------|---------|--------|---------|--------|
|                              | 2016    |        | 2015    |        |
|                              | Level 3 | Total  | Level 3 | Total  |
|                              | RM'000  | RM'000 | RM'000  | RM'000 |
| Leasehold land and buildings | 49,651  | 49,651 | 31,032  | 31,032 |

#### Policy on transfer between levels

The fair value on of an asset to be transferred between levels is determined as of the date the event or change in circumstances that caused the transfer.

## Notes to the Financial Statements (cont'd)

### 4. Investment properties (cont'd)

#### 4.4 Fair value information (cont'd)

##### Level 3 fair value

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

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

| Description of valuation technique   | Significant unobservable inputs                | Inter-relationship between significant unobservable inputs and fair value measurement                 |
|--|--|---|
| (i) The group estimates the fair value of investment properties based on the following key assumptions: <ul style="list-style-type: none"> <li>- Comparison of the Group's investment properties with similar properties that were listed for sale within the same locality or other comparable localities.</li> </ul> | Market price of property in vicinity compared. | The estimated fair value would increase/ (decrease) if market prices of property were higher/(lower). |

### 5. Goodwill

|                                       | Group<br>RM'000 |
|---------------------------------------|-----------------|
| <b>Cost/Carrying amounts</b>          |                 |
| At 1 January 2016                     | -               |
| Acquired through business combination | 87              |
| At 31 December 2016                   | 87              |

#### 5.1 Impairment testing for cash-generating units containing goodwill

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

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

|                           | Group<br>2016<br>RM'000 |
|---------------------------|-------------------------|
| Bestline Design Sdn. Bhd. | 87                      |

The Directors are of the opinion that the goodwill allocated to Bestline Design Sdn. Bhd. is not material. Hence, the impairment testing performed for this cash-generating unit is not disclosed.

## Notes to the Financial Statements (cont'd)

### 6. Investments in subsidiaries

|                                     | Company       |               |
|-------------------------------------|---------------|---------------|
|                                     | 2016          | 2015          |
|                                     | RM'000        | RM'000        |
| Unquoted shares, at cost            | 54,400        | 54,400        |
| Less: Accumulated impairment losses | (100)         | (100)         |
|                                     | <u>54,300</u> | <u>54,300</u> |

Details of the subsidiaries are as follows:

| Name of subsidiary                            | Principal activities                                     | Principal place of business/ Country of incorporation | Effective ownership interest and voting interest |        |
|---|--|---|--|--------|
|   |  |   | 2016 %   | 2015 % |
| Subsidiaries of DeGem Berhad                  |  |   |  |        |
| P.Y.T. Jewel & Time Sdn. Bhd.                 | Investment holding and trading in gold and jewellery     | Malaysia  | 100  | 100    |
| Diamond & Platinum Sdn. Bhd.                  | Trading in diamonds and jewellery                        | Malaysia  | 100  | 100    |
| Jewelmart International Sdn. Bhd.             | Investment holding                                       | Malaysia  | 100  | 100    |
| DeGem Masterpiece Pte. Ltd.* # (a)            | Dormant  | Singapore   | 60   | 60     |
| Subsidiaries of P.Y.T. Jewel & Time Sdn. Bhd. |  |   |  |        |
| DeGem Masterpiece Sdn. Bhd.                   | Investment holding and trading in gold and jewellery     | Malaysia  | 100  | 100    |
| DeGem Prestige Sdn. Bhd.                      | Trading in gold and jewellery                            | Malaysia  | 90   | 90     |
| Inticraft Sdn. Bhd.                           | Manufacturing and trading in gold and jewellery          | Malaysia  | 100  | 100    |
| Tong Yek Jewellers Sdn. Bhd.                  | Investment holding and provision of management services  | Malaysia  | 100  | 100    |
| Diamond Mart Sdn. Bhd.*                       | Property investment                                      | Malaysia  | 100  | 100    |
| DeGem Capital Sdn. Bhd.                       | Investment holding and trading in gold medals and badges | Malaysia  | 100  | 100    |
| DeGem Diamond Collection Sdn. Bhd.            | Trading in diamonds and jewellery                        | Malaysia  | 100  | 100    |

## Notes to the Financial Statements (cont'd)

### 6. Investments in subsidiaries (cont'd)

| Name of subsidiary                                     | Principal activities   | Principal place of business/ Country of incorporation | Effective ownership interest and voting interest |           |
|--|--|---|--|-----------|
|  |  |   | 2016<br>%  | 2015<br>% |
| Subsidiaries of P.Y.T. Jewel & Time Sdn. Bhd. (cont'd) |  |   |  |           |
| Telenaga Sdn. Bhd.*                                    | Property investment  | Malaysia  | 100  | 100       |
| Titanpuri Sdn. Bhd.*                                   | Trading in gold medals and badges                            | Malaysia  | 80   | 80        |
| Solireno Sdn. Bhd.*                                    | Trading and manufacture of gold and jewellery                | Malaysia  | 70   | 70        |
| Depaddle Sdn. Bhd.*                                    | Trading in diamonds and jewellery                            | Malaysia  | 100  | 100       |
| Subsidiaries of Diamond & Platinum Sdn. Bhd.           |  |   |  |           |
| D Rewards Service Sdn. Bhd. * # (b)                    | Dormant  | Malaysia  | -  | 100       |
| Diamond & Platinum (B) Sdn. Bhd.*                      | Trading in diamonds and jewellery                            | Brunei  | 100  | 100       |
| Subsidiaries of Jewelmart International Sdn. Bhd.      |  |   |  |           |
| Bestline International Corporation Limited*            | Trading in gold and jewellery                                | Hong Kong   | 70   | 70        |
| Bestline Design Sdn. Bhd.* (c)                         | Trading in all types of jewellery and other related products | Malaysia  | 70   | -         |
| Bestline Limited * (c)                                 | Trading in jewellery and provision of marketing research     | Hong Kong   | 70   | -         |
| Fareway International Limited*                         | Trading in gold and jewellery                                | Hong Kong   | 100  | 100       |
| DeGem International Pte. Ltd.* #                       | Trading in gold and jewellery and investment holding         | Singapore   | 100  | 100       |
| DeGem Prestige Pte. Ltd.* #                            | Trading in diamonds and jewellery                            | Singapore   | 100  | 100       |

\* Not audited by member firms of KPMG International.

# Consolidated based on management accounts as at and for the year ended 31 December 2016.

(a) Degem Masterpiece Pte. Ltd. is in the process of de-registration.

(b) In 2015, D Rewards Service Sdn. Bhd. was in the process of de-registration. The de-registration process was completed on 30 June 2016.

(c) Bestline International Corporation Limited, a 70% owned subsidiary of Jewelmart International Sdn. Bhd., acquired two wholly-owned subsidiaries, Bestline Design Sdn. Bhd. and Bestline Limited during the year.

## Notes to the Financial Statements (cont'd)

### 6. Investments in subsidiaries (cont'd)

#### Non-controlling interests in subsidiaries

The Group's subsidiaries that have material non-controlling interests ("NCI") are as follows:

|  | 2016          |             |                |        |
|--|---------------|-------------|----------------|--------|
|  | Bestline      | DeGem       | Other          | Total  |
|  | International | Masterpiece | subsidiaries   |        |
|  | Corporation   | Pte. Ltd.   | with           |        |
|  | Limited       |             | immaterial NCI |        |
|  | RM'000        | RM'000      | RM'000         | RM'000 |
| <b>NCI percentage of ownership interest and voting interest</b>        | 30%           | 40%         |                |        |
| Carrying amount of NCI   | 10,082        | 3,084       | 740            | 13,906 |
| Profit/(Loss) allocated to NCI   | 159           | (2)         | (279)          | (122)  |
| <b>Summarised financial information before intra-group elimination</b> |               |             |                |        |
| <b>As at 31 December</b>   |               |             |                |        |
| Non-current assets   | 173           | -           |                |        |
| Current assets   | 37,894        | 7,710       |                |        |
| Current liabilities  | (4,462)       | -           |                |        |
| Net assets   | 33,605        | 7,710       |                |        |
| <b>Year ended 31 December</b>  |               |             |                |        |
| Revenue  | 17,132        | -           |                |        |
| Profit/(Loss) for the year   | 531           | (6)         |                |        |
| Total comprehensive income/(expense)                                   | 531           | (6)         |                |        |
| Cash flows from/(used in) operating activities                         | 1,141         | (39)        |                |        |
| Cash flows used in investing activities                                | (173)         | -           |                |        |
| Net increase/(decrease) in cash and cash equivalents                   | 968           | (39)        |                |        |



## Notes to the Financial Statements (cont'd)

### 6. Investments in subsidiaries (cont'd)

#### Non-controlling interests in subsidiaries (cont'd)

|  | 2015          |             |                |        |
|--|---------------|-------------|----------------|--------|
|  | Bestline      | DeGem       | Other          | Total  |
|  | International | Masterpiece | subsidiaries   |        |
|  | Corporation   | Pte. Ltd.   | with           |        |
|  | Limited       |             | immaterial NCI |        |
|  | RM'000        | RM'000      | RM'000         | RM'000 |
| <b>NCI percentage of ownership interest and voting interest</b>        | 30%           | 40%         |                |        |
| Carrying amount of NCI   | 9,466         | 3,025       | 1,025          | 13,516 |
| Profit/(Loss) allocated to NCI   | 468           | (25)        | 49             | 492    |
| <b>Summarised financial information before intra-group elimination</b> |               |             |                |        |
| <b>As at 31 December</b>   |               |             |                |        |
| Current assets   | 38,635        | 7,587       |                |        |
| Current liabilities  | (7,082)       | (25)        |                |        |
| Net assets   | 31,553        | 7,562       |                |        |
| <b>Year ended 31 December</b>  |               |             |                |        |
| Revenue  | 20,407        | -           |                |        |
| Profit/(Loss) for the year   | 1,559         | (62)        |                |        |
| Total comprehensive income/(expense)                                   | 1,559         | (62)        |                |        |
| Cash flows used in operating activities                                | (1,060)       | (131)       |                |        |
| Net decrease in cash and cash equivalents                              | (1,060)       | (131)       |                |        |

## Notes to the Financial Statements (cont'd)

### 7. Deferred tax assets/(liabilities)

#### Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities recognised are attributable to the following:

| Group                         | Assets         |                | Liabilities    |                | Net            |                |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                               | 2016<br>RM'000 | 2015<br>RM'000 | 2016<br>RM'000 | 2015<br>RM'000 | 2016<br>RM'000 | 2015<br>RM'000 |
| Property, plant and equipment | -              | -              | (1,247)        | (1,258)        | (1,247)        | (1,258)        |
| Inventories                   | 245            | 432            | -              | -              | 245            | 432            |
| Other items                   | 1,445          | 1,661          | (22)           | (363)          | 1,423          | 1,298          |
| Tax assets/(liabilities)      | 1,690          | 2,093          | (1,269)        | (1,621)        | 421            | 472            |
| Set-off of tax                | (868)          | (1,246)        | 868            | 1,246          | -              | -              |
| Net tax assets/(liabilities)  | 822            | 847            | (401)          | (375)          | 421            | 472            |
| <b>Company</b>                |                |                |                |                |                |                |
| Property, plant and equipment | 25             | 25             | -              | -              | 25             | 25             |

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following item (stated at gross):

|                               | Group          |                |
|-------------------------------|----------------|----------------|
|                               | 2016<br>RM'000 | 2015<br>RM'000 |
| Unabsorbed capital allowances | 10             | -              |
| Unutilised tax losses         | 4,016          | 3,849          |
| Others                        | 2,237          | -              |
|                               | 6,263          | 3,849          |

Deferred tax assets have not been recognised in respect of this item because it is not probable that future taxable profits will be available against which the Group entities can utilise the benefits there from.

## Notes to the Financial Statements (cont'd)

### 8. Inventories

|   | Group          |                |
|---|----------------|----------------|
|   | 2016<br>RM'000 | 2015<br>RM'000 |
| Raw materials                           | 28,559         | 25,724         |
| Work-in-progress                        | 2,936          | 2,412          |
| Finished and trading goods              | 178,829        | 171,530        |
|   | <u>210,324</u> | <u>199,666</u> |
| Recognised in profit or loss:           |                |                |
| Inventories recognised as cost of sales | 101,826        | 109,177        |
| Write down to net realisable value      | 383            | 575            |
| Reversal of write-down                  | <u>(111)</u>   | <u>-</u>       |

The management assessed the net realisable value ("NRV") of inventories by identifying inventories aged above 4 years and write down 10% of the costs being the estimated rework costs of the inventory, and 50% of the silver products costs.

### 9. Trade and other receivables

|                              | Note | Group          |                | Company        |                |
|------------------------------|------|----------------|----------------|----------------|----------------|
|                              |      | 2016<br>RM'000 | 2015<br>RM'000 | 2016<br>RM'000 | 2015<br>RM'000 |
| <b>Trade</b>                 |      |                |                |                |                |
| Trade receivables            |      | <u>13,630</u>  | <u>12,558</u>  | -              | -              |
| <b>Non-trade</b>             |      |                |                |                |                |
| Amount due from subsidiaries | 9.1  | -              | -              | 24,820         | 23,301         |
| Other receivables            |      | 5,807          | 5,531          | -              | 1              |
| Deposits                     |      | <u>3,911</u>   | <u>3,711</u>   | <u>16</u>      | <u>16</u>      |
|                              |      | <u>9,718</u>   | <u>9,242</u>   | <u>24,836</u>  | <u>23,318</u>  |
|                              |      | <u>23,348</u>  | <u>21,800</u>  | <u>24,836</u>  | <u>23,318</u>  |

#### 9.1 Amount due from subsidiaries

The amount due from subsidiaries of the Company is unsecured, bears interest at 5.5% (2015: 5.5%) per annum and repayable on demand.

## Notes to the Financial Statements (cont'd)

### 10. Cash and cash equivalents

|                              | Group  |        | Company |        |
|------------------------------|--------|--------|---------|--------|
|                              | 2016   | 2015   | 2016    | 2015   |
|                              | RM'000 | RM'000 | RM'000  | RM'000 |
| Deposits with licensed banks | 7,973  | 5,045  | 350     | 1,559  |
| Cash and bank balances       | 39,351 | 35,210 | 173     | 123    |
|                              | 47,324 | 40,255 | 523     | 1,682  |

### 11. Capital and reserves

#### Share capital

|                                | Group               |         | Company             |         |
|--------------------------------|---------------------|---------|---------------------|---------|
|                                | Number<br>of shares | Amount  | Number<br>of shares | Amount  |
|                                | 2016                | 2016    | 2015                | 2015    |
| Group and Company              | '000                | RM'000  | '000                | RM'000  |
| Authorised:                    |                     |         |                     |         |
| Ordinary shares of RM0.50 each | 200,000             | 100,000 | 200,000             | 100,000 |
| Issued and fully paid:         |                     |         |                     |         |
| Ordinary shares of RM0.50 each | 134,000             | 67,000  | 134,000             | 67,000  |

#### 11.1 Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In respect of the Company's treasury shares that are held by the Group, all rights are suspended until those shares are reissued.

#### 11.2 Share premium

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares.

#### 11.3 Other capital reserve

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

#### 11.4 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

## Notes to the Financial Statements (cont'd)

### 11. Capital and reserves (cont'd)

#### 11.5 Treasury shares

The shareholders of the Company by a resolution passed in an Annual General Meeting held on 19 May 2016, approved the Company's plan to repurchase its own ordinary shares. The Directors of the Company are committed to enhancing the value of the Company to its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

During the financial year, the Company repurchased 6,000 ordinary shares of RM0.50 each of its issued shares from the open market at an average price of RM0.92 per ordinary share. The total consideration paid for the repurchase was RM5,553. The repurchase transactions were fully financed by internally generated funds. The shares repurchased are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Of the total 134,000,000 issued and fully paid ordinary shares of RM0.50 each as at 31 December 2016, 3,159,900 (2015: 3,153,900) are held as treasury shares by the Company. The treasury shares are held at a carrying amount of RM 3,194,000 (2015: RM3,189,000).

None of the treasury shares held are resold or cancelled during the year ended 31 December 2016.

### 12. Loans and borrowings

|                              | Group  |        | Company |        |
|------------------------------|--------|--------|---------|--------|
|                              | 2016   | 2015   | 2016    | 2015   |
|                              | RM'000 | RM'000 | RM'000  | RM'000 |
| <b>Non-current</b>           |        |        |         |        |
| Term loans - secured         | 40,134 | 36,496 | -       | -      |
| Finance lease liabilities    | 380    | 491    | -       | -      |
|                              | 40,514 | 36,987 | -       | -      |
| <b>Current</b>               |        |        |         |        |
| Term loans - secured         | 2,701  | 2,425  | -       | -      |
| Finance lease liabilities    | 313    | 373    | -       | -      |
| Revolving credit - unsecured | 3,000  | 1,000  | 3,000   | 1,000  |
| Bank overdraft - unsecured   | -      | 3,599  | -       | -      |
|                              | 6,014  | 7,397  | 3,000   | 1,000  |
|                              | 46,528 | 44,384 | 3,000   | 1,000  |

## Notes to the Financial Statements (cont'd)

### 12. Loans and borrowings (cont'd)

#### Security

The term loans are secured over land and buildings (see Note 3) and investment properties (see Note 4).

Finance lease liabilities are payable as follows:

| Group                      | 2016                          |          |   | 2015                          |          |   |
|----------------------------|-------------------------------|----------|---|-------------------------------|----------|---|
|                            | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
|                            | RM'000                        | RM'000   | RM'000                                  | RM'000                        | RM'000   | RM'000                                  |
| Less than one year         | 348                           | 35       | 313                                     | 417                           | 44       | 373                                     |
| Between one and five years | 426                           | 46       | 380                                     | 549                           | 58       | 491                                     |
|                            | 774                           | 81       | 693                                     | 966                           | 102      | 864                                     |

### 13. Trade and other payables

|                   | Note | Group  |        | Company |        |
|-------------------|------|--------|--------|---------|--------|
|                   |      | 2016   | 2015   | 2016    | 2015   |
|                   |      | RM'000 | RM'000 | RM'000  | RM'000 |
| <b>Trade</b>      |      |        |        |         |        |
| Trade payables    |      | 19,610 | 14,991 | -       | -      |
| Deposits received | 13.1 | 4,330  | 4,198  | -       | -      |
|                   |      | 23,940 | 19,189 | -       | -      |
| <b>Non-trade</b>  |      |        |        |         |        |
| Accruals          |      | 4,514  | 3,046  | 137     | 99     |
| Other payables    | 13.2 | 7,379  | 5,551  | 50      | 61     |
|                   |      | 11,893 | 8,597  | 187     | 160    |
|                   |      | 35,833 | 27,786 | 187     | 160    |

#### 13.1 Deposits received

A substantial deposits received represent considerations placed by customers for the purchases of goods. The deposits received are unsecured, interest free and are to be set off against purchases of goods expected within a period of less than one year.

#### 13.2 Other payables

Included in other payables of the Group is an amount of RM1,032,000 (2015: RM157,000) owing to Directors. These amounts are unsecured, interest free and repayable on demand.



## Notes to the Financial Statements (cont'd)

### 14. Deferred revenue

|                                 | <b>Group</b>  |               |
|---------------------------------|---------------|---------------|
|                                 | <b>2016</b>   | <b>2015</b>   |
|                                 | <b>RM'000</b> | <b>RM'000</b> |
| At 1 January                    | 1,222         | 1,212         |
| Revenue deferred for the year   | 381           | 462           |
| Revenue recognised for the year | (411)         | (452)         |
| At 31 December                  | 1,192         | 1,222         |

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

#### *D Rewards customer loyalty programme*

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

### 15. Revenue

|                 | <b>Group</b>  |               | <b>Company</b> |               |
|-----------------|---------------|---------------|----------------|---------------|
|                 | <b>2016</b>   | <b>2015</b>   | <b>2016</b>    | <b>2015</b>   |
|                 | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b>  | <b>RM'000</b> |
| Sale of goods   | 186,676       | 191,407       | -              | -             |
| Interest income | -             | -             | 1,145          | 1,381         |
| Dividend income | -             | -             | 4,396          | 1,448         |
|                 | 186,676       | 191,407       | 5,541          | 2,829         |

### 16. Finance income

|  | <b>Group</b>  |               | <b>Company</b> |               |
|--|---------------|---------------|----------------|---------------|
|  | <b>2016</b>   | <b>2015</b>   | <b>2016</b>    | <b>2015</b>   |
|  | <b>RM'000</b> | <b>RM'000</b> | <b>RM'000</b>  | <b>RM'000</b> |
| Interest income of financial asset that are not fair value through profit or loss: |               |               |                |               |
| - Deposits placed with licensed banks  | 122           | 94            | -              | -             |

## Notes to the Financial Statements (cont'd)

### 17. Finance costs

|  | Group  |        | Company |        |
|--|--------|--------|---------|--------|
|  | 2016   | 2015   | 2016    | 2015   |
|  | RM'000 | RM'000 | RM'000  | RM'000 |
| Interest expense of financial liabilities that are not at fair value through profit or loss: |        |        |         |        |
| - finance lease liabilities  | 47     | 56     | -       | -      |
| - term loans - secured   | 1,384  | 1,200  | -       | 239    |
| - revolving credit - unsecured   | 101    | 96     | 101     | 96     |
| - overdraft - unsecured  | 116    | 120    | -       | -      |
|  | 1,648  | 1,472  | 101     | 335    |
| - Other finance costs  | 70     | -      | -       | -      |
|  | 1,718  | 1,472  | 101     | 335    |

### 18. Profit for the year

|   | Group  |        | Company |        |
|---|--------|--------|---------|--------|
|   | 2016   | 2015   | 2016    | 2015   |
|   | RM'000 | RM'000 | RM'000  | RM'000 |
| <b>Profit for the year is arrived at after charging:</b>          |        |        |         |        |
| Auditors' remuneration  |        |        |         |        |
| - Audit fees  |        |        |         |        |
| - Current year  |        |        |         |        |
| KPMG Malaysia   | 200    | 200    | 48      | 48     |
| Other auditors  | 98     | 94     | -       | -      |
| - Over provision in prior year                                    |        |        |         |        |
| KPMG Malaysia   | -      | 23     | -       | -      |
| - Non-audit fees  |        |        |         |        |
| - KPMG Malaysia   | 15     | 15     | 15      | 15     |
| Depreciation of investment properties (Note 4)                    | 364    | 287    | -       | -      |
| Depreciation of property, plant and equipment (Note 3)            | 3,518  | 3,404  | -       | -      |
| Impairment loss on trade receivables                              | 1,408  | -      | -       | -      |
| Impairment on amount due from a subsidiary                        | -      | -      | 1,507   | -      |
| Inventories written down  | 383    | 575    | -       | -      |
| Investment property written off                                   | 1      | -      | -       | -      |
| Personnel expenses (including key management personnel):          |        |        |         |        |
| - Contributions to Employees Provident Fund                       | 3,461  | 3,128  | -       | -      |
| - Wages, salaries and others (including key management personnel) | 28,066 | 26,480 | 377     | 380    |
| Property, plant and equipment written off                         | 714    | 141    | -       | -      |
| Realised foreign exchange loss                                    | 264    | 1,581  | -       | -      |
| Rental of premises  | 11,910 | 10,856 | 60      | 60     |
| Sales commission  | 8,671  | 7,634  | -       | -      |
| Unrealised foreign exchange loss                                  | 56     | 928    | -       | 53     |

## Notes to the Financial Statements (cont'd)

### 18. Profit for the year (cont'd)

|   | Group  |        | Company |        |
|---|--------|--------|---------|--------|
|   | 2016   | 2015   | 2016    | 2015   |
|   | RM'000 | RM'000 | RM'000  | RM'000 |
| <b>and after crediting:</b>   |        |        |         |        |
| Gain on disposal of property, plant and equipment                     | 247    | -      | -       | -      |
| Negative goodwill   | 215    | -      | -       | -      |
| Realised foreign exchange gain  | 151    | -      | -       | 114    |
| Rental income in respect of:  |        |        |         |        |
| - Investment properties   | 981    | 473    | -       | -      |
| - Operating leases other than those relating to investment properties | 287    | 624    | -       | -      |
| Reversal of impairment on amount due from subsidiaries                | -      | -      | -       | 529    |
| Reversal of impairment loss on trade receivables                      | 391    | -      | -       | -      |
| Reversal of inventories written down                                  | 111    | -      | -       | -      |
| Unrealised foreign exchange gain                                      | 71     | 848    | -       | -      |

### 19. Tax expense

#### Recognised in profit or loss

|   | Group  |        | Company |        |
|---|--------|--------|---------|--------|
|   | 2016   | 2015   | 2016    | 2015   |
|   | RM'000 | RM'000 | RM'000  | RM'000 |
| <b>Current tax expense</b>                      |        |        |         |        |
| Malaysian - current                             | 3,612  | 4,681  | 245     | 557    |
| - prior year                                    | (401)  | (87)   | (313)   | -      |
|   | 3,211  | 4,594  | (68)    | 557    |
| Overseas - current                              | 1,386  | 786    | -       | -      |
| - prior year                                    | (50)   | (2)    | -       | -      |
|   | 1,336  | 784    | -       | -      |
| Total current tax recognised in profit or loss  | 4,547  | 5,378  | (68)    | 557    |
| <b>Deferred tax expense</b>                     |        |        |         |        |
| Origination of temporary differences            | (31)   | 222    | -       | -      |
| Under/(Over) provision in prior year            | 314    | 244    | -       | -      |
| Reversal of deferred tax asset                  | (232)  | -      | -       | -      |
| Total deferred tax recognised in profit or loss | 51     | 466    | -       | -      |
| Total income tax expense                        | 4,598  | 5,844  | (68)    | 557    |

## Notes to the Financial Statements (cont'd)

### 19. Tax expense (cont'd)

#### Reconciliation of tax expense

|   | Group  |        | Company |        |
|---|--------|--------|---------|--------|
|   | 2016   | 2015   | 2016    | 2015   |
|   | RM'000 | RM'000 | RM'000  | RM'000 |
| Profit before tax   | 14,687 | 17,084 | 3,143   | 2,342  |
| Income tax calculated using Malaysian tax rate of 24% (2015: 25%) | 3,525  | 4,271  | 754     | 586    |
| Effect of different tax rate in foreign jurisdictions             | (910)  | (419)  | -       | -      |
| Non-deductible expenses   | 1,537  | 1,614  | 379     | 103    |
| Tax exempt income   | -      | -      | (888)   | (132)  |
| Effect of deferred tax assets not recognised                      | 579    | 32     | -       | -      |
| Others  | 4      | 191    | -       | -      |
|   | 4,735  | 5,689  | 245     | 557    |
| Under provision in prior year                                     | (137)  | 155    | (313)   | -      |
|   | 4,598  | 5,844  | (68)    | 557    |

### 20. Earnings per ordinary share

#### Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2016 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

|  | Group   |         |
|--|---------|---------|
|  | 2016    | 2015    |
|  | RM'000  | RM'000  |
| Profit for the year attributable to owners of the Company at 31 December | 10,211  | 10,748  |
| Weighted average number of issued ordinary shares at 1 January           | 134,000 | 134,000 |
| Effect of treasury shares held   | (3,155) | (3,134) |
| Weighted average number of issued ordinary shares at 31 December         | 130,845 | 130,866 |
|  |         |         |
|  | Group   |         |
|  | 2016    | 2015    |
|  | Sen     | Sen     |
| Basic earnings per ordinary share  | 7.80    | 8.21    |

## Notes to the Financial Statements (cont'd)

### 21. Dividends

Dividends recognised by the Company:

|                               | Sen<br>per share | Total<br>amount<br>RM'000 | Date of payment  |
|-------------------------------|------------------|---------------------------|------------------|
| <b>2016</b>                   |                  |                           |                  |
| First and final 2015 ordinary | 2.5              | 3,271                     | 1 July 2016      |
| First interim 2016 ordinary   | 1.0              | 1,309                     | 28 December 2016 |
|                               |                  | <u>4,580</u>              |                  |
| <b>2015</b>                   |                  |                           |                  |
| First and final 2014 ordinary | 1.5              | <u>1,963</u>              | 21 August 2015   |

After the end of the reporting period, the following dividend was proposed by the Directors. This dividend will be recognised in subsequent financial period upon approval by the owners of the Company.

|                     | Sen<br>per share | Total<br>amount<br>RM'000 |
|---------------------|------------------|---------------------------|
| Final 2016 ordinary | 1.5              | <u>1,963</u>              |

### 22. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different business segments, and are managed based on the Group's management and internal reporting structure. For each of the strategic business units, the Chief Executive Director (the chief operating decision maker) and the Board of Directors review internal management reports at least on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

|  |   |
|--|---|
| Retail, design and distribution            | Includes trading of gold and jewellery                            |
| Manufacturing                              | Includes the manufacturing of gold and jewellery                  |
| Investment holding and property investment | Includes investments in subsidiaries and investment in properties |

Performance is measured based on segment profit after tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Chief Executive Director and the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Inter-segment pricing is determined based on negotiated terms.

#### Segment assets

The total of segment asset is measured based on all assets of a segment, as included in the internal management reports that are reviewed by the Chief Executive Director and the Board of Directors. Segment total asset is used to measure the return on assets of each segment.

## Notes to the Financial Statements (cont'd)

### 22. Operating segments (cont'd)

#### Segment liabilities

The total of segment liabilities is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Chief Executive Director and the Board of Directors. Segment total liabilities are used to measure the gearing of each segment.

#### Segment capital expenditure

Segment capital expenditure is the total costs incurred during the financial year to acquire property, plant and equipment and investment properties.

#### Major customers

The Group has a diversified range of customers varying from retail customers and wholesale customers. There were no significant concentration of revenue during the year. In 2015, there was one major customer which accounted for 11% of revenue.

|  | Retail,<br>design and<br>distribution | Manufacturing | Investment<br>holding and<br>property<br>investment | Total          | Eliminations     | Consolidated   |
|--|---------------------------------------|---------------|---|----------------|------------------|----------------|
| 2016   | RM'000                                | RM'000        | RM'000  | RM'000         | RM'000           | RM'000         |
| <b>Business segments</b>   |                                       |               |   |                |                  |                |
| Total external revenue   | 177,654                               | 8,831         | 191   | 186,676        | -                | 186,676        |
| Inter-segment revenue  | 66,477                                | 29,754        | 2,354   | 98,585         | (98,585)         | -              |
| <b>Total segment revenue</b>   | <b>244,131</b>                        | <b>38,585</b> | <b>2,545</b>  | <b>285,261</b> | <b>(98,585)</b>  | <b>186,676</b> |
| <b>Segment results</b>   | <b>8,971</b>                          | <b>2,200</b>  | <b>7,181</b>  | <b>18,352</b>  | <b>(8,263)</b>   | <b>10,089</b>  |
| <i>Included in the measurement<br/>of segment results are:</i>                                 |                                       |               |   |                |                  |                |
| Finance costs  | (1,861)                               | (165)         | (1,018)   | (3,044)        | 1,326            | (1,718)        |
| Finance income   | 69                                    | 24            | 223   | 316            | (194)            | 122            |
| Depreciation of property, plant<br>and equipment and<br>investment properties                  | (3,117)                               | (435)         | (330)   | (3,882)        | -                | (3,882)        |
| Tax expense  | (3,841)                               | (728)         | (12)  | (4,581)        | (17)             | (4,598)        |
| <b>Segment assets</b>  | <b>331,740</b>                        | <b>57,792</b> | <b>130,819</b>                                      | <b>520,351</b> | <b>(175,619)</b> | <b>344,732</b> |
| <i>Included in the measurement of<br/>segment assets are:</i>                                  |                                       |               |   |                |                  |                |
| Additions to non-current assets other<br>than financial instruments and<br>deferred tax assets | 2,191                                 | 98            | 3   | 2,292          | 87               | 2,379          |
| <b>Segment liabilities</b>   | <b>151,237</b>                        | <b>18,608</b> | <b>27,902</b>                                       | <b>197,747</b> | <b>(112,667)</b> | <b>85,080</b>  |



## Notes to the Financial Statements (cont'd)

## 22. Operating segments (cont'd)

|  | Retail,<br>design and<br>distribution | Manufacturing | Investment<br>holding and<br>property<br>investment | Total          | Eliminations     | Consolidated   |
|--|---------------------------------------|---------------|---|----------------|------------------|----------------|
| 2015   | RM'000                                | RM'000        | RM'000  | RM'000         | RM'000           | RM'000         |
| <b>Business segments</b>   |                                       |               |   |                |                  |                |
| Total external revenue   | 181,293                               | 9,918         | 196   | 191,407        | -                | 191,407        |
| Inter-segment revenue  | 37,401                                | 29,530        | 2,179   | 69,110         | (69,110)         | -              |
| <b>Total segment revenue</b>   | <b>218,694</b>                        | <b>39,448</b> | <b>2,375</b>  | <b>260,517</b> | <b>(69,110)</b>  | <b>191,407</b> |
| <b>Segment results</b>   | <b>6,592</b>                          | <b>2,733</b>  | <b>282</b>  | <b>9,607</b>   | <b>1,633</b>     | <b>11,240</b>  |
| <i>Included in the measurement of<br/>segment results are:</i>                                 |                                       |               |   |                |                  |                |
| Finance costs  | (1,620)                               | (179)         | (1,094)   | (2,893)        | 1,421            | (1,472)        |
| Finance income   | 79                                    | 7             | 74  | 160            | (66)             | 94             |
| Depreciation of property, plant<br>and equipment and<br>investment properties                  | (2,896)                               | (470)         | (325)   | (3,691)        | -                | (3,691)        |
| Tax expense  | (4,261)                               | (633)         | (880)   | (5,774)        | (70)             | (5,844)        |
| <b>Segment assets</b>  | <b>312,010</b>                        | <b>56,807</b> | <b>126,979</b>                                      | <b>495,796</b> | <b>(168,750)</b> | <b>327,046</b> |
| <i>Included in the measurement of<br/>segment assets are:</i>                                  |                                       |               |   |                |                  |                |
| Additions to non-current assets other<br>than financial instruments and<br>deferred tax assets | 10,979                                | 1,007         | 222   | 12,208         | -                | 12,208         |
| <b>Segment liabilities</b>   | <b>52,377</b>                         | <b>18,744</b> | <b>22,030</b>                                       | <b>93,151</b>  | <b>(17,836)</b>  | <b>75,315</b>  |

## Notes to the Financial Statements (cont'd)

### 22. Operating segments (cont'd)

#### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of outlets. Segment assets are also based on the geographical location of assets. The amounts of non-current assets do not include financial instruments and deferred tax assets.

|           | Group   |         |                    |        |
|-----------|---------|---------|--------------------|--------|
|           | Revenue |         | Non-current assets |        |
|           | 2016    | 2015    | 2016               | 2015   |
|           | RM'000  | RM'000  | RM'000             | RM'000 |
| Malaysia  | 120,906 | 138,491 | 54,368             | 55,527 |
| Hong Kong | 45,177  | 37,633  | 242                | -      |
| Others    | 20,593  | 15,283  | 5,501              | 5,407  |
|           | 186,676 | 191,407 | 60,111             | 60,934 |

### 23. Financial instruments

#### 23.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");

(b) Financial liabilities measured at amortised cost ("FL").

|                              | Carrying amount | L&R/ (FL) |
|------------------------------|-----------------|-----------|
|                              | RM'000          | RM'000    |
| <b>2016</b>                  |                 |           |
| <b>Financial assets</b>      |                 |           |
| <b>Group</b>                 |                 |           |
| Trade and other receivables  | 23,348          | 23,348    |
| Cash and cash equivalents    | 47,324          | 47,324    |
|                              | 70,672          | 70,672    |
| <b>Company</b>               |                 |           |
| Trade and other receivables  | 24,836          | 24,836    |
| Cash and cash equivalents    | 523             | 523       |
|                              | 25,359          | 25,359    |
| <b>Financial liabilities</b> |                 |           |
| <b>Group</b>                 |                 |           |
| Loans and borrowings         | (46,528)        | (46,528)  |
| Trade and other payables     | (35,833)        | (35,833)  |
|                              | (82,361)        | (82,361)  |
| <b>Company</b>               |                 |           |
| Loans and borrowings         | (3,000)         | (3,000)   |
| Trade and other payables     | (187)           | (187)     |
|                              | (3,187)         | (3,187)   |

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.1 Categories of financial instruments (cont'd)

|                              | Carrying amount<br>RM'000 | L&R/ (FL)<br>RM'000 |
|------------------------------|---------------------------|---------------------|
| <b>2015</b>                  |                           |                     |
| <b>Financial assets</b>      |                           |                     |
| <b>Group</b>                 |                           |                     |
| Trade and other receivables  | 21,800                    | 21,800              |
| Cash and cash equivalents    | 40,255                    | 40,255              |
|                              | <u>62,055</u>             | <u>62,055</u>       |
| <b>Company</b>               |                           |                     |
| Trade and other receivables  | 23,318                    | 23,318              |
| Cash and cash equivalents    | 1,682                     | 1,682               |
|                              | <u>25,000</u>             | <u>25,000</u>       |
| <b>Financial liabilities</b> |                           |                     |
| <b>Group</b>                 |                           |                     |
| Loans and borrowings         | (44,384)                  | (44,384)            |
| Trade and other payables     | (27,786)                  | (27,786)            |
|                              | <u>(72,170)</u>           | <u>(72,170)</u>     |
| <b>Company</b>               |                           |                     |
| Loans and borrowings         | (1,000)                   | (1,000)             |
| Trade and other payables     | (160)                     | (160)               |
|                              | <u>(1,160)</u>            | <u>(1,160)</u>      |

#### 23.2 Net gains and losses arising from financial instruments

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2016<br>RM'000 | 2015<br>RM'000 | 2016<br>RM'000 | 2015<br>RM'000 |
| Net gains/(losses) on:                           |                |                |                |                |
| Fair value through profit or loss on derivatives | -              | 39             | -              | -              |
| Loans and receivables                            | (895)          | 4,441          | (362)          | 1,373          |
| Financial liabilities measured at amortised cost | (1,816)        | (1,552)        | (101)          | (335)          |
|  | <u>(2,711)</u> | <u>2,928</u>   | <u>(463)</u>   | <u>1,038</u>   |

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

#### 23.4 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and deposits placed with licensed banks.

The Company's exposure to credit risk arises principally from loans and advances to subsidiaries and financial guarantees given to banks for credit facilities granted to subsidiaries.

##### Receivables

*Risk management objectives, policies and processes for managing the risk*

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Certain customers requiring credit over a predetermined amount are subject to credit evaluation and approval.

*Exposure to credit risk and credit quality*

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

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these trade receivables are regular customers that have been transacting with the Group. Due to the nature of the industry, the trade receivables also comprise credit cards outstanding from the merchant banks. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 120 days, which are deemed to have higher credit risk, are monitored individually.

Due to the Group's large number of customer, concentration of credit risk with respect to receivables is limited except for one major customer which accounted for 26% (2015: 68%) of trade receivables.

The exposure of credit risk for trade receivables as at the end of the reporting period by geographic region was:

|          | Group         |               |
|----------|---------------|---------------|
|          | 2016          | 2015          |
|          | RM'000        | RM'000        |
| Domestic | 3,269         | 2,688         |
| Others   | 10,361        | 9,870         |
|          | <u>13,630</u> | <u>12,558</u> |

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.4 Credit risk (cont'd)

##### Receivables (cont'd)

##### Impairment losses

The Group maintain an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

| Group                       | Gross<br>RM'000 | Impairment<br>RM'000 | Net<br>RM'000 |
|-----------------------------|-----------------|----------------------|---------------|
| <b>2016</b>                 |                 |                      |               |
| Not past due                | 3,385           | -                    | 3,385         |
| Past due 1 - 30 days        | 1,322           | -                    | 1,322         |
| Past due 31 - 120 days      | 4,861           | -                    | 4,861         |
| Past due more than 120 days | 5,470           | (1,408)              | 4,062         |
|                             | <u>15,038</u>   | <u>(1,408)</u>       | <u>13,630</u> |
| <b>2015</b>                 |                 |                      |               |
| Not past due                | 3,945           | -                    | 3,945         |
| Past due 1 - 30 days        | 3,741           | -                    | 3,741         |
| Past due 31 - 120 days      | 867             | -                    | 867           |
| Past due more than 120 days | 4,396           | (391)                | 4,005         |
|                             | <u>12,949</u>   | <u>(391)</u>         | <u>12,558</u> |

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

|                            | Group        |            |
|----------------------------|--------------|------------|
|                            | 2016         | 2015       |
|                            | RM'000       | RM'000     |
| At 1 January               | 391          | 391        |
| Impairment loss recognised | 1,408        | -          |
| Impairment loss reversed   | (391)        | -          |
| At 31 December             | <u>1,408</u> | <u>391</u> |

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

##### Financial guarantees

##### Risk management objectives, policies and processes for managing the risk

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

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.4 Credit risk (cont'd)

##### Financial guarantees (cont'd)

*Exposure to credit risk, credit quality and collateral*

The maximum exposure to credit risk amounts to RM37,800,000 (2015: RM33,485,000) representing the outstanding banking facilities of the subsidiaries as at end of the reporting period.

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

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

##### Cash and cash equivalents

*Risk management objectives, policies and processes for managing the risk*

The Group manages its balances and deposits with banks by monitoring their credit ratings on an ongoing basis. Deposits with licensed banks have original maturities of three months or less.

*Exposure to credit risk, credit quality and collateral*

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

##### Inter-company balances

*Risk management objectives, policies and processes for managing the risk*

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

*Exposure to credit risk, credit quality and collateral*

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

*Impairment losses*

As at the end of the reporting period, the inter-company balance that is assessed to be irrecoverable amounting to RM1,507,358 (2015: RM Nil) had been impaired. The Company does not specifically monitor the ageing of current advances to the subsidiaries.

#### 23.5 Liquidity risk

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

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

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

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.5 Liquidity risk (cont'd)

##### *Maturity analysis*

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

|                              | Carrying<br>amount | Contractual<br>interest rate | Contractual<br>cash flows | Under<br>1 year | 1 - 2<br>years | 2 - 5<br>years | More than<br>5 years |
|------------------------------|--------------------|------------------------------|---------------------------|-----------------|----------------|----------------|----------------------|
| 2016                         | RM'000             | %                            | RM'000                    | RM'000          | RM'000         | RM'000         | RM'000               |
| <b>Group</b>                 |                    |                              |                           |                 |                |                |                      |
| <i>Non-derivative</i>        |                    |                              |                           |                 |                |                |                      |
| <i>financial liabilities</i> |                    |                              |                           |                 |                |                |                      |
| Term loans - secured         | 42,835             | 1.47 - 4.82                  | 51,248                    | 3,973           | 3,973          | 12,057         | 31,245               |
| Revolving credit - unsecured | 3,000              | 5.44 - 5.69                  | 3,000                     | 3,000           | -              | -              | -                    |
| Finance lease liabilities    | 693                | 2.33 - 2.48                  | 774                       | 348             | 181            | 245            | -                    |
| Trade and other payables     | 35,833             | -                            | 35,833                    | 35,833          | -              | -              | -                    |
|                              | <u>82,361</u>      |                              | <u>90,855</u>             | <u>43,154</u>   | <u>4,154</u>   | <u>12,302</u>  | <u>31,245</u>        |
| <b>Company</b>               |                    |                              |                           |                 |                |                |                      |
| Revolving credit - unsecured | 3,000              | 5.75                         | 3,000                     | 3,000           | -              | -              | -                    |
| Trade and other payables     | 187                | -                            | 187                       | 187             | -              | -              | -                    |
| Financial guarantee          | -                  | -                            | 37,800                    | 37,800          | -              | -              | -                    |
|                              | <u>3,187</u>       |                              | <u>40,987</u>             | <u>40,987</u>   | <u>-</u>       | <u>-</u>       | <u>-</u>             |
| <b>2015</b>                  |                    |                              |                           |                 |                |                |                      |
| <b>Group</b>                 |                    |                              |                           |                 |                |                |                      |
| <i>Non-derivative</i>        |                    |                              |                           |                 |                |                |                      |
| <i>financial liabilities</i> |                    |                              |                           |                 |                |                |                      |
| Term loans - secured         | 38,921             | 1.71 - 4.95                  | 51,658                    | 3,890           | 4,261          | 17,697         | 25,810               |
| Revolving credit - unsecured | 1,000              | 5.75                         | 1,000                     | 1,000           | -              | -              | -                    |
| Finance lease liabilities    | 864                | 2.33 - 2.48                  | 949                       | 406             | 358            | 185            | -                    |
| Bank overdraft - unsecured   | 3,599              | 7.35                         | 3,599                     | 3,599           | -              | -              | -                    |
| Trade and other payables     | 27,786             | -                            | 27,786                    | 27,786          | -              | -              | -                    |
|                              | <u>72,170</u>      |                              | <u>84,992</u>             | <u>36,681</u>   | <u>4,619</u>   | <u>17,882</u>  | <u>25,810</u>        |
| <b>Company</b>               |                    |                              |                           |                 |                |                |                      |
| Revolving credit - unsecured | 1,000              | 5.75                         | 1,000                     | 1,000           | -              | -              | -                    |
| Trade and other payables     | 160                | -                            | 160                       | 160             | -              | -              | -                    |
| Financial guarantee          | -                  | -                            | 33,485                    | 33,485          | -              | -              | -                    |
|                              | <u>1,160</u>       |                              | <u>34,645</u>             | <u>34,645</u>   | <u>-</u>       | <u>-</u>       | <u>-</u>             |



## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.6 Market risk

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

##### 23.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases, deposits with licensed bank and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD), Singapore Dollar (SGD), Hong Kong Dollar (HKD), and Brunei Dollar (BND).

*Risk management objectives, policies and processes for managing the risk*

The Group does not use any forward contracts to hedge against its exposure to foreign currency risk as the foreign exchange exposures in transactional currencies other than functional currency of the Group are kept to an acceptable level.

*Exposure to foreign currency risk*

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

| Group                       | Denominated in |         |          |        | Total    |
|-----------------------------|----------------|---------|----------|--------|----------|
|                             | USD            | SGD     | HKD      | BND    |          |
|                             | RM'000         | RM'000  | RM'000   | RM'000 | RM'000   |
| <b>2016</b>                 |                |         |          |        |          |
| Trade and other receivables | 11,743         | 4,422   | 1,579    | 138    | 17,882   |
| Cash and cash equivalents   | 8,788          | 2,634   | 566      | 2,014  | 14,002   |
| Loans and borrowings        | -              | (3,556) | -        | -      | (3,556)  |
| Trade and other payables    | (17,417)       | (340)   | (3,483)  | (535)  | (21,775) |
|                             | 3,114          | 3,160   | (1,338)  | 1,617  | 6,553    |
| <b>2015</b>                 |                |         |          |        |          |
| Trade and other receivables | 1,272          | 243     | 8,598    | -      | 10,113   |
| Cash and cash equivalents   | 10,575         | 4,590   | 185      | 1,623  | 16,973   |
| Loans and borrowings        | -              | (3,630) | -        | -      | (3,630)  |
| Trade and other payables    | (8,798)        | (280)   | (11,340) | -      | (20,418) |
|                             | 3,049          | 923     | (2,557)  | 1,623  | 3,038    |

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.6 Market risk (cont'd)

##### 23.6.1 Currency risk (cont'd)

###### *Currency risk sensitivity analysis*

A 10% (2015: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant.

|     | Group  |        |
|-----|--------|--------|
|     | 2016   | 2015   |
|     | RM'000 | RM'000 |
| USD | 237    | 229    |
| SGD | 240    | 69     |
| HKD | (102)  | (192)  |
| BND | 123    | 122    |

A 10% (2015: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

##### 23.6.2 Interest rate risk

The Group's primary interest rate risk relates to borrowings and deposits with licensed banks. Deposits with licensed banks with fixed rate are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

The Company provides advances to its subsidiaries at an interest of 5.5% (2015: 5.5%) per annum and are repayable on demand.

###### *Risk management objectives, policies and processes for managing the risk*

The Group adopts a practice to continuously seek alternative banking facilities which provide competitive interest rates to finance and/or refinance its working capital requirements. The Group will consider entering into derivative financial instruments when necessary to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy.

Market interest rates movements are monitored with the view to ensure that the most competitive rates are secured and where appropriate, borrowing arrangements are restructured or reduced. The Group's interest bearing assets are mainly placed in short term deposits with reputable financial institutions.

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.6 Market risk (cont'd)

##### 23.6.2 Interest rate risk (cont'd)

###### *Exposure to interest rate risk*

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

|                                     | Group           |                 | Company        |                |
|-------------------------------------|-----------------|-----------------|----------------|----------------|
|                                     | 2016            | 2015            | 2016           | 2015           |
|                                     | RM'000          | RM'000          | RM'000         | RM'000         |
| <b>Fixed rate instruments</b>       |                 |                 |                |                |
| <b>Financial assets</b>             |                 |                 |                |                |
| Deposits placed with licensed banks | 7,973           | 5,045           | 350            | 1,559          |
| Amount due from subsidiaries        | -               | -               | 24,820         | 23,301         |
| <b>Financial liabilities</b>        |                 |                 |                |                |
| Finance lease liabilities           | (693)           | (864)           | -              | -              |
|                                     | <u>7,280</u>    | <u>4,181</u>    | <u>25,170</u>  | <u>24,860</u>  |
| <b>Floating rate instruments</b>    |                 |                 |                |                |
| <b>Financial liabilities</b>        |                 |                 |                |                |
| Term loans - secured                | (42,835)        | (38,921)        | -              | -              |
| Revolving credit                    | (3,000)         | (1,000)         | (3,000)        | (1,000)        |
| Bank overdraft                      | -               | (3,599)         | -              | -              |
|                                     | <u>(45,835)</u> | <u>(43,520)</u> | <u>(3,000)</u> | <u>(1,000)</u> |

##### **Interest rate risk sensitivity analysis**

###### *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

###### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) equity and post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.6 Market risk (cont'd)

##### 23.6.2 Interest rate risk (cont'd)

|                           | Group<br>Profit or (loss) |                    | Company<br>Profit or (loss) |                    |
|---------------------------|---------------------------|--------------------|-----------------------------|--------------------|
|                           | 100 bp<br>increase        | 100 bp<br>decrease | 100 bp<br>increase          | 100 bp<br>decrease |
|                           | RM'000                    | RM'000             | RM'000                      | RM'000             |
| <b>2016</b>               |                           |                    |                             |                    |
| Floating rate instruments | (348)                     | 348                | (23)                        | 23                 |
| <b>2015</b>               |                           |                    |                             |                    |
| Floating rate instruments | (326)                     | 326                | (8)                         | 8                  |

##### 23.6.3 Fair value of information

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

It was not practiceable to estimate the fair value of the Company's investment in unquoted shares in subsidiaries due to the lack of comparable quoted market prices in an active market and the fair value cannot be reliably measured.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

|                              | Fair value of financial instruments<br>carried at fair value |         |         |        | Fair value of financial instruments not<br>carried at fair value |         |         |        | Total fair<br>value | Carrying<br>amount |
|------------------------------|--|---------|---------|--------|--|---------|---------|--------|---------------------|--------------------|
|                              | Level 1  | Level 2 | Level 3 | Total  | Level 1  | Level 2 | Level 3 | Total  |                     |                    |
|                              | RM'000   | RM'000  | RM'000  | RM'000 | RM'000   | RM'000  | RM'000  | RM'000 | RM'000              | RM'000             |
| <b>2016</b>                  |  |         |         |        |  |         |         |        |                     |                    |
| <b>Group</b>                 |  |         |         |        |  |         |         |        |                     |                    |
| <b>Financial liabilities</b> |  |         |         |        |  |         |         |        |                     |                    |
| Term loan - secured          | -  | -       | -       | -      | -  | -       | 42,835  | 42,835 | 42,835              | 42,835             |
| Finance lease liabilities    | -  | -       | -       | -      | -  | -       | 638     | 638    | 638                 | 693                |
|                              | -  | -       | -       | -      | -  | -       | 43,473  | 43,473 | 43,473              | 43,528             |
| <b>2015</b>                  |  |         |         |        |  |         |         |        |                     |                    |
| <b>Group</b>                 |  |         |         |        |  |         |         |        |                     |                    |
| <b>Financial liabilities</b> |  |         |         |        |  |         |         |        |                     |                    |
| Term loan - secured          | -  | -       | -       | -      | -  | -       | 38,921  | 38,921 | 38,921              | 38,921             |
| Finance lease liabilities    | -  | -       | -       | -      | -  | -       | 797     | 797    | 797                 | 864                |
|                              | -  | -       | -       | -      | -  | -       | 39,718  | 39,718 | 39,718              | 39,785             |

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.6 Market risk (cont'd)

##### 23.6.3 Fair value of information (cont'd)

##### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event of change in circumstances that caused that transfer.

##### Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

##### Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

##### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For borrowings, the market rate interest is determined by reference to similar borrowings arrangements.

##### Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2015: no transfer in either directions).

##### Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial liabilities.

The following table shows a reconciliation of Level 3 fair values:

|  | Group  |        |
|--|--------|--------|
|  | 2016   | 2015   |
|  | RM'000 | RM'000 |
| <b>Interest rate swaps</b>                         |        |        |
| Balance at 1 January                               | -      | 39     |
| Gain recognised in the statement of profit or loss | -      | (39)   |
| At 31 December                                     | -      | -      |

##### Fair value of financial instruments not carried at fair value

| Type                      | Description of valuation technique and inputs used   |
|---------------------------|--|
| Term loan                 | The fair value of term loan is estimated to approximate its carrying amount as this is variable rate borrowings.                                   |
| Finance lease liabilities | The fair value of finance lease liabilities is estimated based on discounted cash flows using prevailing market rates of similar lease agreements. |

## Notes to the Financial Statements (cont'd)

### 23. Financial instruments (cont'd)

#### 23.6 Market risk (cont'd)

##### 23.6.4 Precious metals and stones risk

The jewellery industry is generally affected by fluctuations in the price and supply of precious metals and stones. The supply and price of diamonds in the principal world market are significantly influenced by a single entity, The Diamond Trading Company, a subsidiary of De Beers Consolidated Mines Limited. To date, there has been no material impact on the availability and pricing of and demand for diamonds.

There are no hedging transactions entered into for other precious metals and stones.

### 24. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The debt-to-equity ratios at 31 December 2016 and at 31 December 2015 were as follows:

|   | Group    |          |
|---|----------|----------|
|   | 2016     | 2015     |
|   | RM'000   | RM'000   |
| Total loans and borrowings (Note 12)      | 46,528   | 44,384   |
| Less: Cash and cash equivalents (Note 10) | (47,324) | (40,255) |
| Net debt                                  | (796)    | 4,129    |
| Total equity                              | 259,652  | 251,731  |
| Debt-to-equity ratios                     | -        | 0.02     |

There were no changes in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

### 25. Operating leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

|                            | Group  |        |
|----------------------------|--------|--------|
|                            | 2016   | 2015   |
|                            | RM'000 | RM'000 |
| Less than one year         | 9,635  | 4,465  |
| Between one and five years | 13,328 | 2,329  |
|                            | 22,963 | 6,794  |

The Group leases a number of outlets in the shopping malls under operating leases. The leases typically run for a period between 1 to 3 years, with an option to renew the lease after that date. Lease payments are increased every renewal of tenancy agreement to reflect market rentals.

## Notes to the Financial Statements (cont'd)

### 26. Related parties

#### Identity of related parties

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

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

The Group has related party relationship with its ultimate holding company, subsidiaries, key management personnel, company in which the Director has a close member of the family and company in which the minority interests shareholders has significant financial interest.

#### Significant related party transactions

Related party transactions have been entered into in the normal course of business under negotiated terms.

The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Notes 9 and 13.

|                                  | Group  |        | Company |         |
|----------------------------------|--------|--------|---------|---------|
|                                  | 2016   | 2015   | 2016    | 2015    |
|                                  | RM'000 | RM'000 | RM'000  | RM'000  |
| <b>Ultimate holding company:</b> |        |        |         |         |
| Dividend paid                    | 4,580  | 1,081  | 4,580   | 1,081   |
| <b>Subsidiaries:</b>             |        |        |         |         |
| Rental expenses                  | -      | -      | 60      | 60      |
| Dividend income                  | -      | -      | (4,396) | (1,448) |
| Interest income                  | -      | -      | (1,145) | (1,381) |
| <b>Key management personnel:</b> |        |        |         |         |
| Executive Directors              |        |        |         |         |
| - Fees                           | 178    | 178    | 178     | 178     |
| - Remuneration                   | 5,653  | 4,761  | -       | -       |
| Non-Executive Directors          |        |        |         |         |
| - Fees                           | 218    | 221    | 198     | 202     |
|                                  | 6,049  | 5,160  | 376     | 380     |



## Notes to the Financial Statements (cont'd)

### 26. Related parties (cont'd)

#### Significant related party transactions (cont'd)

|   | Group  |        | Company |        |
|---|--------|--------|---------|--------|
|   | 2016   | 2015   | 2016    | 2015   |
|   | RM'000 | RM'000 | RM'000  | RM'000 |
| <b>A company in which the Director has a close member of the family:</b>                        |        |        |         |        |
| Sales of goods  | 3,000  | 42     | -       | -      |
| Purchases   | 7,280  | 829    | -       | -      |
| Management fee paid   | 400    | 424    | -       | -      |
| Commission paid   | 37     | 37     | -       | -      |
| <b>A company in which the minority interest shareholders has significant financial interest</b> |        |        |         |        |
| Sales   | 4,975  | -      | -       | -      |
| Commission paid   | 497    | -      | -       | -      |

### 27. Acquisitions of subsidiaries

#### 27.1 Acquisition of subsidiaries – Bestline Design Sdn. Bhd.

On 6 June 2016, Bestline International Corporation Limited, a 70% owned subsidiary of Jewelmart International Sdn. Bhd., which in turn is a wholly owned subsidiary of the Company had acquired 100% equity interest in Bestline Design Sdn. Bhd. for a cash consideration of RM2. The principal activity of Bestline Design Sdn. Bhd. is trading of jewellery and other related product. The acquisition of Bestline Design Sdn. Bhd. has further expanded the Group's operation in Malaysia. In the 7 months to 31 December 2016, the subsidiaries contributed revenue of RM1,165,000 and loss of RM7,000. If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been RM1,862,000, and consolidated profit for the financial year would have been RM11,000.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

|   |      | 2016    |
|---|------|---------|
|   | Note | RM'000  |
| <b>Fair value of consideration transferred</b>              |      |         |
| Cash and cash equivalents                                   |      | —*      |
| <b>Identifiable assets acquired and liabilities assumed</b> |      |         |
| Property, plant and equipment                               | 3    | 1,142   |
| Trade and other receivables                                 |      | 724     |
| Cash and cash equivalents                                   |      | 221     |
| Current tax assets  |      | 16      |
| Loans and borrowings  |      | (692)   |
| Trade and other payables                                    |      | (1,498) |
| Total identifiable net liabilities                          |      | (87)    |

\* Represents purchase consideration of RM2.00

## Notes to the Financial Statements (cont'd)

### 27. Acquisitions of subsidiaries (cont'd)

#### 27.1 Acquisition of subsidiaries – Bestline Design Sdn. Bhd. (cont'd)

##### Net cash inflow arising from acquisition of subsidiary

|   | 2016<br>RM'000 |
|---|----------------|
| Purchase consideration settled in cash and cash equivalents | -*             |
| Cash and cash equivalents acquired                          | 221            |
|   | <u>221</u>     |

##### Goodwill

Goodwill was recognised as a result of the acquisition as follows:

|  | 2016<br>RM'000 |
|--|----------------|
| Total consideration transferred            | -*             |
| Fair value of identifiable net liabilities | 87             |
| Goodwill                                   | <u>87</u>      |

\* Represents purchase consideration of RM2.00

#### 27.2 Acquisition of subsidiaries – Bestline Limited

On 6 June 2016, Bestline International Corporation Limited, a 70% owned subsidiary of Jewelmart International Sdn. Bhd., which in turn is a wholly owned subsidiary of the Company had acquired 100% equity interest in Bestline Limited for a cash consideration of RM156,000. The principal activity of Bestline Limited is trading of jewellery and provision of marketing research for customers. The acquisition of Bestline Limited has further expanded the Group's operation into Hong Kong. In the 7 months to 31 December 2016, the subsidiaries contributed revenue of RM10,472,000 and loss of RM1,018,000. If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been RM17,107,000, and consolidated loss for the financial year would have been RM2,119,000.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

|   | Note | 2016<br>RM'000  |
|---|------|-----------------|
| <b>Fair value of consideration transferred</b>              |      |                 |
| Cash and cash equivalents                                   |      | <u>156</u>      |
| <b>Identifiable assets acquired and liabilities assumed</b> |      |                 |
| Property, plant and equipment                               | 3    | 238             |
| Trade and other receivables                                 |      | 10,475          |
| Cash and cash equivalents                                   |      | 1,022           |
| Current tax assets  |      | 78              |
| Trade and other payables                                    |      | <u>(11,442)</u> |
| Total identifiable net assets                               |      | <u>371</u>      |

The trade and other receivables in comprise gross contractual amounts due of RM11,237,000 of which RM762,000 was expected to be uncollectible at the acquisition date.

## Notes to the Financial Statements (cont'd)

### 27. Acquisitions of subsidiaries (cont'd)

#### 27.2 Acquisition of subsidiaries – Bestline Limited (cont'd)

##### Net cash inflow arising from acquisition of subsidiary

|   | 2016<br>RM'000 |
|---|----------------|
| Purchase consideration settled in cash and cash equivalents | (156)          |
| Cash and cash equivalents acquired                          | 1,022          |
|   | <u>866</u>     |

##### Negative goodwill

Negative goodwill was recognised as a result of the acquisition as follows:

|                                       | 2016<br>RM'000 |
|---------------------------------------|----------------|
| Total consideration transferred       | 156            |
| Fair value of identifiable net assets | <u>(371)</u>   |
| Negative goodwill                     | <u>(215)</u>   |

# Supplementary Financial Information

## 28. Supplementary financial information on the breakdown of realised and unrealised profits or losses

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

|                                 | Group    |          | Company |        |
|---------------------------------|----------|----------|---------|--------|
|                                 | 2016     | 2015     | 2016    | 2015   |
|                                 | RM'000   | RM'000   | RM'000  | RM'000 |
| Total retained earnings of the  |          |          |         |        |
| Company and its subsidiaries:   |          |          |         |        |
| - Realised                      | 206,295  | 196,566  | 2,186   | 3,527  |
| - Unrealised                    | 379      | (336)    | -       | 28     |
|                                 | 206,674  | 196,230  | 2,186   | 3,555  |
| Less: Consolidation adjustments | (51,217) | (46,404) | -       | -      |
| Total retained earnings         | 155,457  | 149,826  | 2,186   | 3,555  |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

# Statement by Directors

Pursuant to Section 251(2) of the Companies Act, 2016

In the opinion of the Directors, the financial statements set out on pages 51 to 107 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2016 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 28 on page 108 to the financial statements has been compiled in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

.....  
**Choong Kai Fatt**

Director

.....  
**Choong Khoi Onn**

Director

Kuala Lumpur,

Date: 21 April 2017

# Statutory Declaration

Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, **Choong Khoi Onn**, the Director primarily responsible for the financial management of DeGem Berhad, do solemnly and sincerely declare that the financial statements set out on pages 51 to 108 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Choong Khoi Onn, NRIC: 560810-08-6519 at Kuala Lumpur in the Federal Territory on 21 April 2017.

.....  
**Choong Khoi Onn**

Before me:

# Independent Auditors' Report

to the members of DeGem Berhad

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Degem Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 51 to 107.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Valuation of inventories - Group   |  |
|--|--|
| Refer to Note 2(h) - Significant accounting policy: Inventories and Note 8 - Inventories.  |  |
| The key audit matter   | How the matter was addressed in our audit  |
| <p>Sales in the jewelry industry is subject to customer's preference which is based on trends. There is a risk that the carrying amount of the inventory exceeds its net realisable value.</p> <p>Judgements are also required to identify slow moving inventories which need to be written down to their net realisable value.</p> <p>Given the valuation of inventories is judgemental, this is considered to be a key audit matter.</p> | <p>We performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> <li>• Evaluated the Group's policy of writing down of slow-moving inventories as at 31 December 2016 based on our understanding of the market value of the precious metals and stones, the design lifecycle and value of the rework costs;</li> <li>• Assessed the design lifecycle by reviewing current and historical trends of inventory movements sold within 4 years;</li> <li>• Assessed the rework costs by reference to the actual manufacturing costs incurred over the last three years;</li> <li>• Evaluated the Group's inventory net realisable values for finished goods as at 31 December 2016 by comparing the carrying value of the inventories to current and historical trends of the gross profit margins and sales made to external customers subsequent to year end, to assess whether these exceeded the carrying value of inventory at year end;</li> </ul> |



# Independent Auditors' Report (cont'd)

to the members of DeGem Berhad

## Key Audit Matters (cont'd)

| <b>Valuation of inventories - Group (cont'd)</b>  |   |
|---|---|
| Refer to Note 2(h) - Significant accounting policy: Inventories and Note 8 – Inventories. |   |
| <b>The key audit matter</b>   | <b>How the matter was addressed in our audit</b>  |
|   | <ul style="list-style-type: none"> <li>Assessed the accuracy of the inventories ageing by checking the age profile of inventories to purchase invoices on a sample basis. The ageing of inventories were used to identify slow moving inventories; and</li> <li>Based on the inventory ageing, we assessed the Group's adequacy of writing down of slow-moving inventories as at 31 December 2016 by comparing the Group's written-down amount based on Group's policy, to written-down amount computed by us based on our work performed above.</li> </ul> |

| <b>Audits of Group Financial Statements – Group</b>   |   |
|---|---|
| <b>The key audit matter</b>   | <b>How the matter was addressed in our audit</b>  |
| <p>In a group audit, there is a risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement.</p> <p>Group engagement team needs to consider the significant components when determining the nature, timing and extent of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components.</p> <p>Given the Group has two significant foreign components which contributed substantially to the Group's revenue and profit respectively, this is considered to be a key audit matter.</p> | <p>We performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> <li>For significant components, involved in the component auditor's risk assessment to identify significant risks of material misstatements to the group financial statements;</li> <li>Issued group audit instructions to component auditors to determine the type of work to be performed and the reporting requirements;</li> <li>Received the reporting deliverables and findings of component auditors; and</li> <li>Inspected the audit work papers and documentation of component auditors and assessed the need for any further procedures to be performed.</li> </ul> |

## Independent Auditors' Report (cont'd)

to the members of DeGem Berhad

| <b>Impairment of amount due from subsidiaries - Company</b>   |   |
|---|---|
| Refer to Note 2(j)(i) - Significant accounting policy: Impairment and Note 9 – Trade and other receivables.   |   |
| <b>The key audit matter</b>   | <b>How the matter was addressed in our audit</b>  |
| <p>There are amount due from certain subsidiaries where the subsidiaries were in net liabilities position and loss making as at year end.</p> <p>Impairment of amount due from these subsidiaries is a key audit matter at Company level due to the level of judgement applied by the Company in determining provisions for impairment of amount due from subsidiaries, which includes making appropriate assumptions over whether these subsidiaries have the ability to repay the amount owing.</p> | <p>We performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> <li>• Challenged the Company's basis for determining whether there exist an objective evidence of impairment of amounts due from subsidiaries; and</li> <li>• Evaluated and challenged the Company's assessment by assessing the financial strength and past payment trend of subsidiaries.</li> </ul> |

### Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the annual report and, in doing so, consider whether the annual report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the annual report, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## Independent Auditors' Report (cont'd)

to the members of DeGem Berhad

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Independent Auditors' Report (cont'd)

to the members of DeGem Berhad

### Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Note 6 to the financial statements.

### Other Reporting Responsibilities

The supplementary information set out in Note 28 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

### Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

### KPMG PLT

LLP0010081-LCA & AF 0758  
Chartered Accountants

### Lee Yee Keng

Approval Number: 02880/04/2019 J  
Chartered Accountant

21 April 2017  
Petaling Jaya, Malaysia

# Analysis of Shareholdings

as at 31 March 2017

## SHARE CAPITAL

|                                  |   |                           |
|----------------------------------|---|---------------------------|
| Issued and fully paid-up capital | : | RM67,000,000/-            |
| Class of Shares                  | : | Ordinary shares           |
| No. of Shareholders              | : | 933                       |
| Voting rights                    | : | 1 vote per ordinary share |
| No. of Treasury Shares held      | : | 3,159,900 ordinary shares |

## ANALYSIS BY SIZE OF SHAREHOLDINGS

| Size of Shareholdings                    | No. of Shareholders | %      | No. of Share Held | %      |
|--|---------------------|--------|-------------------|--------|
| Less than 100                            | 16                  | 1.71   | 520               | 0.00   |
| 100 - 1,000                              | 488                 | 52.31  | 121,700           | 0.09   |
| 1,001 - 10,000                           | 324                 | 34.73  | 1,364,680         | 1.04   |
| 10,001 - 100,000                         | 80                  | 8.57   | 2,256,800         | 1.72   |
| 100,001 to less than 5% of issued shares | 22                  | 2.36   | 27,551,850        | 21.06  |
| 5% and above of issued shares            | 3                   | 0.32   | 99,544,550        | 76.09  |
|  | 933                 | 100.00 | 130,840,100       | 100.00 |

## LIST OF THIRTY LARGEST SHAREHOLDERS

| No. | Name   | No. of Shares Held | %     |
|-----|--|--------------------|-------|
| 1.  | Legion Master Sdn. Bhd.  | 75,968,634         | 58.06 |
| 2.  | HSBC Nominees (Asing) Sdn. Bhd.<br>(Exempt an for BSI SA (BSI BK SG-NR))   | 13,195,900         | 10.09 |
| 3.  | DB (Malaysia) Nominee (Asing) Sdn. Bhd.<br>(Exempt an for Deutsche Bank AG Singapore (PWM Asing))                  | 10,380,016         | 7.93  |
| 4.  | Kenanga Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Teh Yean Teong (021))                     | 5,892,600          | 4.50  |
| 5.  | Amsec Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Cherie Sumana Weerasena)                    | 4,326,000          | 3.31  |
| 6.  | Amsec Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Teh Yean Teong)                             | 4,000,000          | 3.06  |
| 7.  | Dato' Hasan bin M. Taib  | 3,000,000          | 2.29  |
| 8.  | Choong Kay Cheong  | 2,508,000          | 1.92  |
| 9.  | Choong Sin Cheong  | 2,500,000          | 1.91  |
| 10. | Amsec Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account – Ambank (M) Berhad for Teh Yean Teong (SMART)) | 1,432,800          | 1.10  |

## Analysis of Shareholdings (cont'd)

as at 31 March 2017

### LIST OF THIRTY LARGEST SHAREHOLDERS (cont'd)

| No. | Name   | No. of Shares Held | %     |
|-----|--|--------------------|-------|
| 11. | Choong Khoi Onn  | 640,000            | 0.49  |
| 12. | Peninsular Logistic Sdn. Bhd.  | 591,150            | 0.45  |
| 13. | Lai Moi Foong  | 512,700            | 0.39  |
| 14. | RHB Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Wong Yee Hui)                 | 481,400            | 0.37  |
| 15. | Yeoh Mooi Kim  | 274,600            | 0.21  |
| 16. | Yeoh Phek Leng   | 225,000            | 0.17  |
| 17. | Maybank Securities Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Lim Bee Ying)  | 165,100            | 0.13  |
| 18. | Maybank Securities Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Lau Eng Guang) | 162,000            | 0.12  |
| 19. | Ong Bee Lian   | 148,800            | 0.11  |
| 20. | Yeoh Mooi Geck   | 124,000            | 0.09  |
| 21. | Kenanga Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Cheong Chen Yue)          | 121,400            | 0.09  |
| 22. | Choong Khoi Onn  | 120,000            | 0.09  |
| 23. | Onn Ping Lan   | 119,300            | 0.09  |
| 24. | Liau Nge Moi @ Leo Mee Chong   | 105,000            | 0.08  |
| 25. | Yeoh Pei Kee   | 102,000            | 0.08  |
| 26. | Kenanga Nominees (Tempatan) Sdn. Bhd.<br>(Pledged Securities Account for Teh Siew Wah (021))       | 89,000             | 0.07  |
| 27. | Susy Ding  | 88,100             | 0.07  |
| 28. | Nik Aninda binti Nik Manshor   | 75,000             | 0.06  |
| 29. | Nik Awang @ Wan Azmi bin Wan Hamzah  | 75,000             | 0.06  |
| 30. | Maggie Leong Mei Kay   | 71,000             | 0.05  |
|     |  | 127,494,500        | 97.44 |

# Substantial Shareholders

(As shown in the Register of Substantial Shareholders)

| Name of Substantial Shareholders | Direct      | No. of ordinary Shares |             |       |
|----------------------------------|-------------|------------------------|-------------|-------|
|                                  |             | %                      | Indirect    | %     |
| Legion Master Sdn. Bhd.          | 75,968,634* | 58.06                  | -           | -     |
| Choong Kai Soon                  | -           | -                      | 75,968,634* | 58.06 |
| Yeoh Mooi Kim                    | -           | -                      | 274,600#    | 0.21  |
| Choong Kai Fatt                  | -           | -                      | 75,968,634* | 58.06 |
| Choong Khoi Onn                  | 760,000     | 0.58                   | 75,968,634* | 58.06 |
| Choong Sin Cheong                | 2,500,000   | 1.91                   | 75,968,634* | 58.06 |
| Choong Kay Cheong                | 2,508,000   | 1.92                   | 75,968,634* | 58.06 |

\* Deemed interested by virtue of his direct/indirect shareholdings in Legion Master Sdn. Bhd.

# Deemed interest through her spouse's shareholding by virtue of Section 59(11)(c) of the Companies Act, 2016.

# Statement of Directors' Shareholdings

| Directors' Name                 | Direct    | No. of ordinary Shares |             |       |
|---------------------------------|-----------|------------------------|-------------|-------|
|                                 |           | %                      | Indirect    | %     |
| Dato' Hasan bin M. Taib         | 3,000,000 | 2.30                   | -           | -     |
| Choong Kai Soon                 | -         | -                      | 75,968,634* | 58.06 |
| Yeoh Mooi Kim                   | -         | -                      | 274,600#    | 0.21  |
| Choong Kai Fatt                 | -         | -                      | 75,968,634* | 58.06 |
| Choong Khoi Onn                 | 760,000   | 0.58                   | 75,968,634* | 58.06 |
| Choong Kay Cheong               | 2,508,000 | 1.92                   | 75,968,634* | 58.06 |
| Leou Thiam Lai                  | -         | -                      | -           | -     |
| Datuk Zainun Aishah binti Ahmad | -         | -                      | -           | -     |
| Dato' Koh Hong Sun              | -         | -                      | -           | -     |

\* Deemed interested by virtue of his direct/indirect shareholdings in Legion Master Sdn. Bhd.

# Deemed interest through her spouse's shareholding by virtue of Section 59(11)(c) of the Companies Act, 2016.



# Properties of The Group

The Landed Properties of DeGem Group are as follows:

| Registered Owner           | Description  | Location  | Date of Acquisition | Existing Use        | Tenure             | Total Area sq.ft | Age of Building (Years) | NBV @ 31.12.2016 |
|----------------------------|--|---|---------------------|---------------------|--------------------|------------------|-------------------------|------------------|
| P.Y.T Jewel & Time Sdn Bhd | One Six Storeys Shop Office Located at 10 Boulevard, Damansara                 | No. B-G-30 Block B, 10 Boulevard, Damansara, Jalan Cempaka Kg. Sg. Kayu Ara 47400 Petaling Jaya Selangor. | 31.07.2008          | Investment Property | 99 years Leasehold | 20,303           | 9                       | 5,818,245        |
| Diamond Mart Sdn Bhd       | Two Continuous Three Storeys Mid Terraced Shop Offices                         | No. 40 & 42, Jalan Maarof, Bangsar Baru, 59100 KL   | 21.02.2001          | Boutique and Office | Freehold           | 2,040 each       | 23                      | 6,852,067        |
|                            | One Single Storey Bungalow   | No.20, Jalan 1/4 Old Town, 46000 Petaling Jaya, Selangor.   | 30.11.2011          | Investment Property | 99 years Leasehold | 4,168            | 52                      | 205,151          |
| Telenaga Sdn Bhd           | Two Continuous Three Storeys Mid Terraced Shop Offices                         | No. 44 & 46, Jalan Maarof, Bangsar Baru, 59100 KL   | 19.11.1998          | Boutique and Office | Freehold           | 2,040 each       | 23                      | 4,124,414        |
| DeGem Prestige Sdn Bhd     | 4 1/2 Storey Shophouse Leasehold Land - 70% Leasehold Buildings -30%           | No.100, Lorong Mamanda 2, Taman Dato Ahmad Razali 68000 Ampang, Selangor                                  | 30.04.2006          | Boutique            | 99 years Leasehold | 1,650            | 28                      | 2,149,554        |
| Tong Yek Jewellers Sdn Bhd | Two Continuous Commercial Lots Located on the Ground Floor of Wisma Punca Emas | No.G14 and G22, Wisma Punca Emas, Jalan Yam Tuan, Seremban  | 30.03.1985          | Investment Property | Freehold           | 394              | 31                      | 1                |



# Directory of DeGem Group Showrooms



[www.degemdiamond.com](http://www.degemdiamond.com)

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## Kuala Lumpur

### 1. **Bangsar Baru**

No. 40-46  
Jalan Maarof  
Bangsar Baru  
59100 Kuala Lumpur  
Tel: 03-2282 3618  
Fax: 03-2282 4960

### 2. **Pavilion**

Lot 3.02, Level 3  
The Pavilion Kuala Lumpur  
168 Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel: 03-2141 1199  
Fax: 03-2142 8180

### **The Gardens**

G-213B, Ground Floor  
The Gardens Mall  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel: 03-2283 2618  
Fax: 03-2282 9618

## Selangor

### 4. **1 Utama Shopping Complex Selangor**

G302, GF, 1 Utama Shopping Centre (Phase 2A)  
No.1, Lebuhr Bandar Utama  
47800 Petaling Jaya  
Selangor  
Tel: 03-7725 8218  
Fax: 03-7725 8217

### 5. **Ampang Point Selangor**

No. 99-100, Lorong Mamanda 2  
Taman Dato' Ahmad Razali  
68000 Ampang  
Selangor  
Tel: 03-4256 2227  
Fax: 03-4256 2766

## Singapore

### 6. **The Shoppes At Marina Bay Sands**

01-03/04  
1 Bayfront Avenue  
Marina Bay Hotel Tower  
Singapore 018971  
Tel: 65-6688 7032  
Fax: 65-6688 7033

## Directory of DeGem Group Showrooms (cont'd)



[www.diamondnplatinum.com](http://www.diamondnplatinum.com)

### Kuala Lumpur

1. **Mid Valley Megamall**  
Lot No G-068, Ground Floor  
South Court, Mid Valley Megamall  
Mid Valley City, 58200 Kuala Lumpur  
59100 Kuala Lumpur  
Tel: 03-2938 3478
2. **Sungei Wang Plaza**  
Lot LG137, Lower Ground Floor  
Sungei Wang Plaza  
Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel: 03-2145 3478
3. **MyTown Shopping Centre (Newly Open)**  
Lot No. G-040, Ground Floor  
My Town Shopping Centre  
No. 6, Jalan Cochrane, Seksyen 90,  
55100 Kuala Lumpur  
Tel: 03-9226 6478

### Selangor

4. **Sunway Pyramid**  
Lot G1.133, Ground Floor  
Sunway Pyramid Shopping Mall  
No. 3, Jalan PJS11/15  
Bandar Sunway  
46150 Petaling Jaya  
Selangor  
Tel: 03-7492 2478
5. **1 Utama Shopping Centre**  
Lot F128 & F129, 1st Floor  
1 Utama Shopping Centre  
No.1, Lebuhraya Utama Damansara  
47800 Petaling Jaya  
Selangor  
Tel: 03-7725 3478
6. **The Curve Mutiara Damansara**  
Lot G59 & G60, Ground Floor  
The Curve, Jalan PJU 7/3  
Mutiara Damansara  
47800 Petaling Jaya  
Selangor  
Tel: 03-7728 2478
7. **AEON Bukit Tinggi Shopping Centre**  
Lot G60, Ground Floor  
Aeon Bukit Tinggi Shopping Centre  
No.1, Persiaran Batu Nilam, 1/KS6  
Bandar Bukit Tinggi  
41200 Klang  
Selangor  
Tel: 03-3326 2478
8. **Subang Parade**  
Lot G18, Ground Floor, Subang Parade  
No 5, Jalan SS16/1  
47500 Subang Jaya  
Selangor  
Tel: 03-5635 3478
9. **Setia City Mall**  
UG-13 Setia City Mall  
No.7 Persiaran Setia Dagang  
Sek U13, 40170 Setia Alam  
Selangor  
Tel: 03-3345 6478

## Directory of DeGem Group Showrooms (cont'd)



[www.diamondnplatinum.com](http://www.diamondnplatinum.com)

### Johor

- 10. Sutera Mall**  
L2-018, Sutera Mall  
No.1, Jalan Sutera Tanjung 8/4  
Taman Sutera Utama  
81300 Skudai, Johor Bahru  
Tel: 07-557 8478

### Penang

- 11. Queensbay Mall**  
Lot 107 & 108, Ground Floor  
Queensbay Mall  
100 Persiaran Bayan Indah  
Sungai Nibong  
11900 Penang  
Tel: 04-642 2478
- 12. Gurney Plaza**  
170-G-47B, Ground Floor  
Plaza Gurney,  
Persiaran Gurney  
10250 Penang  
Tel: 04-226 3478

### Perak

- 13. Ipoh Parade**  
Lot G32, Ground Floor  
Ipoh Parade  
105 Jalan Sultan Abdul Jalil  
Greentown  
30450 Ipoh, Perak  
Tel: 05-242 3478

### Sarawak

- 14. Vivacity Megamall**  
G-0578, Ground Floor  
Vivacity Megamall  
Jalan Wan Alwi  
93350 Kuching, Sarawak  
Tel: +6082-263648

### Brunei

- 15. Abdul Razak Complex**  
Lot G-05 & 06, Ground Floor  
The Mall, Abdul Razak Complex  
Gadong BE3519  
Brunei Darussalam  
Tel: +673-242 8478

## Directory of DeGem Group Showrooms (cont'd)



[www.jeoel.com](http://www.jeoel.com)

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### Kuala Lumpur

**1. Sunway Velocity Mall**

Unit G-46, Ground Floor  
Sunway Velocity Mall  
Lingkaran SV, Sunway Velocity  
55100 Kuala Lumpur  
Tel: 03-9286 7210

### Selangor

**2. 1 Utama Shopping Centre**

Lot F213a, First Floor  
1 Utama Shopping Centre  
Lebuh Bandar Utama, Bandar Utama  
47800 Petaling Jaya  
Selangor  
Tel: 03-7733 1650

**3. Sunway Pyramid**

Lot LG1.02A, Lower Ground One,  
Sunway Pyramid Shopping Mall  
No 3, Jalan PJS11/15 Bandar Sunway  
46150 Petaling Jaya  
Selangor.  
Tel: 03-5613 0080

## APPENDIX "A"

**LEGION MASTER SDN. BHD.**

Lot 4, 100, Tingkat 4,  
Wisma Central, Jalan Ampang,  
50450 Kuala Lumpur

Date: 17 April 2017

The Board of Directors

**DEGEM BERHAD**

No. 42, 1<sup>st</sup> Floor,  
Jalan Maarof, Bangsar Baru,  
59100 Kuala Lumpur

Dear Sirs,

**NOTICE OF NOMINATION OF AUDITORS**

Pursuant to Companies Act 2016, we, being a shareholder of the Company, hereby give notice of my intention to nominate **Baker Tilly Monteiro Heng** for appointment as auditors of the Company and to propose the following as an ordinary resolution to be tabled at the forthcoming Annual General Meeting of the Company, to replace the retiring auditors, KPMG PLT:-

"That **Baker Tilly Monteiro Heng** be and are hereby appointed as Auditors of the Company in place of the retiring Auditors, KPMG PLT, and to hold office until the conclusion of the next Annual General Meeting at a remuneration to be determined by the Directors."

Yours faithfully



Legion Master Sdn Bhd  
507788-K

I/We \_\_\_\_\_  
(FULL NAME IN BLOCK LETTERS)

of \_\_\_\_\_  
(ADDRESS)

being a member(s) of DEGEM BERHAD hereby appoint \_\_\_\_\_  
(FULL NAME)

(NRIC No.: \_\_\_\_\_) of \_\_\_\_\_  
(ADDRESS)

or failing him/her, \_\_\_\_\_  
(FULL NAME)

(NRIC No.: \_\_\_\_\_) of \_\_\_\_\_  
(ADDRESS)

or failing him/her, the Chairman of the Meeting as \*my/our proxy to vote for \*me/us and on \*my/our behalf at the Twentieth Annual General Meeting of the Company to be held at the Eugenia Room, Ground Floor, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Friday, 26 May 2017, at 10.30 a.m. and at any adjournment thereof.

(\* strike out whichever is not desired)

(Should you desire to direct your Proxy as to how to vote on the Resolutions set out in the Notice of Meeting, please indicate an "X" in the appropriate space. Unless otherwise instructed, the proxy may vote or abstain from voting at his discretion.)

| NO. RESOLUTIONS   | FOR | AGAINST |
|---|-----|---------|
| 1. To declare a final dividend  |     |         |
| 2. To approve Directors' fees   |     |         |
| 3. To approve Directors' benefits   |     |         |
| 4. Re-election of Mr. Choong Kai Fatt as Director   |     |         |
| 5. Re-election of Datuk Zainun Aishah binti Ahmad as Director   |     |         |
| 6. Re-election of Dato' Koh Hong Sun as Director  |     |         |
| 7. To appoint Baker Tilly Monteiro Heng as Auditors of the Company in place of the retiring Auditors, KPMG PLT.                     |     |         |
| 8. Ordinary Resolution - Authority to issue shares pursuant to Section 75 of the Companies Act, 2016                                |     |         |
| 9. Ordinary Resolution - Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature |     |         |
| 10. Ordinary Resolution - Proposed Renewal of Authority for Share Buy-Back  |     |         |
| 11. Ordinary Resolution - Continuing in Office for Mr. Leou Thiam Lai as Independent Non-Executive Director                         |     |         |
| 12. Ordinary Resolution - Continuing in Office for Datuk Zainun Aishah binti Ahmad as Independent Non-Executive Director            |     |         |

Dated this.....day of....., 2017

|                                 |  |
|---------------------------------|--|
| No. of Shares Held:             |  |
| CDS Account No.:                |  |
| Tel. No. (during office hours): |  |

.....  
Signature

#### Notes:

- A member of the Company entitled to attend and vote at this meeting is entitled to appoint up to two (2) proxies to attend and vote instead of him/her. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportions of his/her shareholdings to be represented by each proxy. There shall be no restriction as to the qualification of the proxy.
- Where a member of the Company is an exempt authorised nominee ("EAN") as defined under the Securities Industry (Central Depositories) Act 1991 which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the EAN may appoint in respect of each omnibus account it holds.
- In the case of a corporate body, the proxy appointed must be in accordance with the Memorandum and Articles of Association, and the instrument appointing a proxy shall be given under the Company's Common Seal or under the hand of an officer or attorney duly authorised.
- The Form of Proxy must be deposited at the Share Registrar's Office, Symphony Share Registrar Sdn. Bhd., Pusat Dagangan Dana 1, Jalan PJU Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor not less than forty-eight (48) hours before the time set for the meeting or any adjournment thereof.
- General Meeting Record of Depositors**  
For purposes of determining who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn. Bhd. to make available to the Company pursuant to Article 54(C) of the Articles of Association of the Company and Paragraph 7.16(2) of the Main Market Listing Requirements of Bursa Securities, a Record of Depositors as at 19 May 2017 and a Depositor whose name appears on such Record of Depositors shall be entitled to attend this meeting or appoint proxy to attend and/or vote in his stead.



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Affix  
Stamp  
Here

The Company Secretary

**DeGem Berhad (415726-T)**

No. 42 First Floor,  
Jalan Maarof,  
Bangsar Baru,  
59100 Kuala Lumpur

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**DeGem Berhad** (415726-T)

No. 42 First Floor,  
Jalan Maarof, Bangsar Baru,  
59100 Kuala Lumpur.  
Tel : 603 2284 4794  
Fax : 603 2284 4864  
Email : [info@degembhd.com](mailto:info@degembhd.com)

**[www.degembhd.com](http://www.degembhd.com)**

