

## 10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

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### 10.1 RELATED PARTY TRANSACTIONS

Under the Listing Requirements, a “**related party transaction**” is a transaction entered into by a listed issuer or its subsidiaries that involves the interest, direct or indirect, of a related party. A “**related party**” of a listed issuer (not being a special purpose acquisition company) is:

- (i) a director, having the meaning given in subsection 2(1) of the CMSA, and includes any person who is or was within the preceding six months of the date on which the terms of the transaction were agreed upon, a director of the listed issuer, its subsidiary or holding company or a chief executive of the listed issuer, its subsidiary or holding company; or
- (ii) a major shareholder, and includes any person who is or was within the preceding six months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed issuer or its subsidiaries or holding company, and has or had an interest or interests in one or more voting shares in a corporation and the nominal amount of that share on the aggregate of the nominal amounts of those shares is:
  - (a) 10% or more of the aggregate of the nominal amounts of all the voting shares in the corporation;
  - (b) 5% or more of the aggregate of the nominal amounts of all the voting shares in the corporation where such person is the largest shareholder of the corporation; or
- (iii) a person connected with such director or major shareholder.

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**10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (cont'd)****10.2 EXISTING AND PROPOSED RELATED PARTY TRANSACTIONS****10.2.1 Background Information on Key Related Parties****(i) Nutraphyll**

Nutraphyll owned and operated six health store outlets in the Klang Valley, exclusively selling our House Brand products. Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun, and Phang Yeen Hung were the shareholders of Nutraphyll. In addition, Phang Nyie Lin, Tan Sok Mooi and Phang Yeen Aun were directors of Nutraphyll.

Phang Nyie Lin, Tan Sok Mooi and Phang Yeen Aun have resigned as directors of Nutraphyll since 14 June 2017. As at 5 July 2017, Nutraphyll has closed all of its health store outlets and ceased operations. Subsequently on 17 August 2017, Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun, and Phang Yeen Hung disposed their respective equity interest in Nutraphyll to a non-related party, for a total cash consideration of RM22,400 for 2,240,000 shares in Nutraphyll as follows:

Shareholders	Shareholdings		Disposal consideration
	No. of shares in Nutraphyll	%	RM
Tan Sok Mooi	1,040,000	41.6	10,400
Phang Yeen Nung	300,000	12.0	3,000
Phang Yeen Aun	300,000	12.0	3,000
Phang Yeen Hung	600,000	24.0	6,000
<b>Total</b>	<b>2,240,000</b>	<b>89.6</b>	<b>22,400</b>

**(ii) Axiana**

Axiana was a retail pharmacy selling our House Brand products, amongst others. Axiana was an 80.0% subsidiary of Nutraphyll, while the remaining shares were held by a non-related party. Phang Nyie Lin, Phang Yeen Nung, Phang Yeen Aun and Phang Yeen Hung were also directors of Axiana.

On 30 June 2017, Phang Nyie Lin, Phang Yeen Nung, Phang Yeen Aun, and Phang Yeen Hung have resigned as directors of Axiana. As at the LPD, Axiana has closed all of its retail outlets and ceased operations.

**(iii) Axiana (Bukit Raja)**

Axiana (Bukit Raja) was a retail pharmacy selling our House Brand products, amongst others. Axiana (Bukit Raja) was also a 51.0% subsidiary of Axiana, while the remaining shares were held by a non-related party. Phang Yeen Aun was a director of the company.

On 30 June 2017, Phang Yeen Aun resigned as a director of Axiana (Bukit Raja). As at LPD, Axiana (Bukit Raja) has closed its retail outlet and ceased operations.

**(iv) All Day Pharmacy**

All Day Pharmacy is a retail pharmacy chain selling our House Brand products, amongst others. All Day Pharmacy was also a 50.6% subsidiary of Nutraphyll while the remaining shares were held by non-related parties. Phang Nyie Lin, Phang Yeen Nung and Phang Yeen Aun were also directors of All Day Pharmacy.

Phang Yeen Aun resigned as a director on 20 January 2017, while Phang Nyie Lin and Phang Yeen Nung resigned as the directors of All Day Pharmacy on 14 June 2017. Nutraphyll had on 17 August 2017 disposed its equity interest in All Day Pharmacy to a non-related party for a total cash consideration of RM7,976,451.20 for 1,012,240 shares in All Day Pharmacy. On 17 August 2017, Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun, and Phang Yeen Hung disposed their respective equity interest in Nutraphyll to a non-related party.

**10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (cont'd)**

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As at the LPD, All Day Pharmacy continues to be our customer and NWPP partner and we will continue to supply raw materials and our House Brand products to All Day Pharmacy under the NWPP.

**(v) Vision Biotech**

Vision Biotech is principally involved in the trading of all kinds of premix and animal health products. Phang Nyie Lin and Phang Yeen Aun are non-executive directors and shareholders of Vision Biotech. They are not involved in the day-to-day operations and management of Vision Biotech.

Historically, our Group was involved in the development and production of animal health products that is used to treat and prevent diseases for animals. Vision Biotech was one of our customers for the animal health products. However, since 9 January 2017, we have ceased the trading of these animal health products to focus on the development and production of our House Brand and OEM products, which is our principal business activity. As at the LPD, Vision Biotech continues to trade in all kinds of premix and animal health products.

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**10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (cont'd)****10.2.2 Related Party Transactions**

Save as disclosed below, our Group has not entered into nor proposes to enter into any related party transactions for the Financial Years Under Review and the subsequent financial period immediately preceding the LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value				
				2015 (RM)	2016 (RM)	2017 (RM)	FPE 2017 (RM)	Up to the LPD (RM)
1.	Tan Sok Mooi and Nova Laboratories	Tan Sok Mooi is our substantial shareholder.	Purchase of a land held under GM 275, Lot 708, Mukim Sepang, Daerah Sepang, Negeri Selangor by Nova Laboratories from Tan Sok Mooi <sup>(1)</sup>	-	-	-	8,480,000 <sup>(2)</sup>	-
2.	Nutrephyll and Nova Laboratories	<ul style="list-style-type: none"> <li>Phang Nyie Lin, our substantial shareholder, and Director, was a director of Nutrephyll up to 14 June 2017.</li> <li>Tan Sok Mooi, our substantial shareholder, was a director and shareholder of Nutrephyll up to 14 June 2017 and 17 August 2017 respectively.</li> <li>Phang Yeen Nung, our substantial shareholder and Director, was a shareholder of Nutrephyll up to 17 August 2017.</li> <li>Phang Yeen Aun, our substantial shareholder and Director, was a director and shareholder of Nutrephyll up to 14 June 2017 and 17 August 2017 respectively.</li> <li>Phang Yeen Hung, our substantial shareholder, was a shareholder of Nutrephyll up to 17 August 2017.</li> </ul>	Use of office space by Nutrephyll <sup>(3)</sup>  Use of two classes of 'Nova' trademarks by Nutrephyll <sup>(4)</sup>  Sale of office furniture to Nutrephyll by Nova Laboratories <sup>(5)</sup>	-	-	-	-	-
3.	Axiana and Nova Laboratories	<ul style="list-style-type: none"> <li>Phang Nyie Lin, Phang Yeen Nung and Phang Yeen Aun, our substantial shareholders and Directors, were directors of Axiana up to 30 June 2017.</li> </ul>	Supply of our House Brand products to Nutrephyll <sup>(6)</sup>	354,737	556,779	385,407	-	-
			Use of office space by Axiana <sup>(3)</sup> Assignment of trademarks by Nova Laboratories to Axiana <sup>(7)</sup>	-	-	-	-	10

**10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (cont'd)**

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value				
				2015 (RM)	2016 (RM)	2017 (RM)	FPE 2017 (RM)	Up to the LPD (RM)
		<ul style="list-style-type: none"> <li>Phang Yeen Hung, our substantial shareholder, was a director of Axiana up to 30 June 2017.</li> <li>Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun and Phang Yeen Hung were shareholders of Nutraphyll, the holding company of Axiana up to 17 August 2017.</li> </ul>	Supply of our House Brand products to Axiana <sup>(6)</sup>	141,034	107,751	178,629	-	-
4	Axiana (Bukit Raja) and Nova Laboratories	<ul style="list-style-type: none"> <li>Phang Yeen Aun, our substantial shareholder and Director, was a director in Axiana (Bukit Raja) up to 30 June 2017.</li> <li>Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun and Phang Yeen Hung were shareholders Nutraphyll, the ultimate holding company of Axiana (Bukit Raja), up to 17 August 2017.</li> </ul>	Supply of our House Brand products to Axiana (Bukit Raja) <sup>(6)</sup>	17,169	33,502	60,339	-	-
5.	All Day Pharmacy and Nova Laboratories	<ul style="list-style-type: none"> <li>Phang Nyie Lin and Phang Yeen Nung our substantial shareholder and Director, were directors of All Day Pharmacy up to 14 June 2017.</li> <li>Phang Yeen Aun our substantial shareholder and Director, was a director of All Day Pharmacy up to 20 January 2017.</li> </ul>	Supply of our House Brand products to All Day Pharmacy <sup>(6)</sup> Sale of raw materials to All Day Pharmacy <sup>(6)(8)</sup>	-	-	2,516,390	-	-
6.	Kinrara Agency Sdn Bhd and Nova Laboratories	Sulaiman bin Haji Ahmad, our Director, is a director of Kinrara Agency Sdn Bhd.	Supply of our House Brand products to Kinrara Agency Sdn Bhd	-	-	9,546	4,597	8,043

**10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (cont'd)**

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value				
				2015 (RM)	2016 (RM)	2017 (RM)	FPE 2017 (RM)	Up to the LPD (RM)
7.	Vision Biotech and Nova Laboratories	Phang Nyie Lin and Phang Yeen Aun, our substantial shareholders and Directors, are the directors and shareholders of Vision Biotech.	Supply of animal health products to Vision Biotech <sup>(9)</sup>	708,552	610,366	172,886	-	-
8.	Phang Too May and Nova Laboratories	Phang Nyie Lin, our substantial shareholder and Director, is the brother of Phang Too May.	Sale of raw materials to Vision Biotech	-	-	125,850	13,006	-
9.	Phang Nyie Lin and Nova Laboratories	Phang Nyie Lin is our substantial shareholder and Director.	Sale of our House Brand products to Phang Too May <sup>(10)</sup>	4,888	15,194	-	-	-
10.	Tan Sok Mooi and Nova Laboratories	Tan Sok Mooi is our substantial shareholder.	Sale of our House Brand products to Phang Nyie Lin <sup>(11)</sup>	21,793	13,609	10,520	10,038	1,622
11.	Phang Yeen Nung and Nova Laboratories	Phang Yeen Nung is our substantial shareholder and Director.	Sale of our House Brand products to Tan Sok Mooi <sup>(11)</sup>	6,315	2,148	-	-	-
12.	Phang Yeen Aun and Nova Laboratories	Phang Yeen Aun is our substantial shareholder and Director.	Sale of our House Brand products to Phang Yeen Nung <sup>(11)</sup>	7,571	3,840	838	582	1,060
13.	Phang Yeen Hung and Nova Laboratories	Phang Yeen Hung is our substantial shareholder.	Sale of our House Brand products to Phang Yeen Aun <sup>(11)</sup>	-	-	-	810	1,795
			Sale of our House Brand products to Phang Yeen Hung <sup>(11)</sup>	-	-	3,027	5,124	3,905

## 10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST *(cont'd)*

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### Notes:

- (1) Nova Laboratories had, on 13 September 2017 entered into a sale and purchase agreement with Tan Sok Mooi to acquire the land held under GM 275, Lot 708, Mukim Sepang, Daerah Sepang, Negeri Selangor for RM8.48 million. The purchase consideration was satisfied via the issuance of 527,956 new ordinary shares in Nova Laboratories at RM16.06 per share. The shares were allotted and issued on 9 October 2017. The purchase consideration was arrived at after taking into consideration the valuation of the land of RM8.48 million by the Independent Valuer. The Valuation Certificate on the land valuation is set out in Section 14. Prior to the sale and purchase agreement, Nova Laboratories had occupied the land at zero consideration, with the consent of Tan Sok Mooi.

Pursuant to the Acquisition, as set out in Section 5.2.1, we had issued 171,771,016 Shares to acquire 1,062,956 Nova Laboratories' shares from Tan Sok Mooi including the 527,956 Nova Laboratories' shares issued for the acquisition of the land.

- (2) The purchase consideration of RM8.48 million does not include GST. Pursuant to the sale and purchase agreement, the GST will be borne by Nova Laboratories amounting to RM508,800.
- (3) Two employees of Axiana and Nutraphyll respectively were allowed to occupy and use an area of office space at Nova Laboratories at zero consideration from 9 October 2012 to 30 June 2017. However, the employees have since 1 July 2017, ceased to occupy and use the office space.
- (4) We had provided Nutraphyll a licence since 18 April 2014, to use the 'Nova' trademarks for the purpose of marketing Nova's House Brand products at its health store outlets. As Nutraphyll has closed all its health store outlets, the trademark licence is no longer applicable for Nutraphyll and was terminated on 5 July 2017.
- (5) The sale of office furniture to Nutraphyll by Nova Laboratories was at cost after taking into account the depreciation, i.e. at net book value.
- (6) As set out in Section 10.2.1, Phang Nyie Lin, Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun and Phang Yeen Hung have ceased to be directors or shareholders, as the case may be, of Nutraphyll, Axiana, Axiana (Bukit Raja) and All Day Pharmacy.
- (7) We had transferred six trademarks registered by us with MyIPO, to Axiana on 13 June 2016 for a consideration of RM10 (not inclusive of GST). The trademarks are in relation to the Axiana name and were registered by us on behalf of Axiana. They were transferred to Axiana as the trademarks were not utilised by the Group for any of our products. Pursuant to the transfer, Axiana has repaid the cost incurred by us for the registration of the trademarks on 14 July 2017.
- (8) The sale of raw materials to All Day Pharmacy was at our cost price.
- (9) We have since 9 January 2017, ceased the trading of animal health products to focus on the production and sale of our House Brand and OEM products.
- (10) Phang Too May had purchased our House Brand products at a discount of 35.0% similar to our employees as her purchases were for charitable purposes and own consumption. However, Phang Too May is not an employee of the Group and since FYE 2017, we have not sold any of our products to Phang Too May. Our Directors also confirm that our Group will not enter into such transactions in the future.
- (11) The sale of House Brand products are inclusive of staff discount of 35.0% on our House Brand products, which all employees of our Group are entitled to; limited to 5 units per person per month.

## 10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST *(cont'd)*

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Our Audit Committee and our Directors are of the opinion that the purchase of the land by Nova Laboratories from Tan Sok Mooi, the sale of office furniture to Nutraphyll, the supply of animal health products and raw materials to Vision Biotech, the supply of our House Brand products to Nutraphyll, Axiana, Axiana (Bukit Raja), All Day Pharmacy and Kinrara Agency Sdn Bhd, and the sale of our House Brand products to our substantial shareholders were carried out on an arm's length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not to the detriment of our Group based on the following:

- (i) The purchase of land was based on the market value as valued by the Independent Valuer;
- (ii) The sale of office furniture to Nutraphyll is based on the net book value of the furniture;
- (iii) The supply of our House Brand Products to Nutraphyll, Axiana, Axiana (Bukit Raja), All Day Pharmacy and Kinrara Agency Sdn Bhd were on normal commercial terms similar to our other customers;
- (iv) The transactions with Vision Biotech were at market prices and at a profit to our Group; and
- (v) The sale of our House Brand products to our substantial shareholders at a staff discount was pursuant to their employment with our Group and all employees are entitled to similar discounts.

Our Directors confirm that the use of office space by Nutraphyll and Axiana, use of Nova trademarks by Nutraphyll, assignment of trademarks to Axiana, sale of raw materials to All Day Pharmacy and transactions with Phang Too May were not carried out on an arm's length basis. However, moving forward we have resolved future conflicts with these related parties as follows:

- (i) Phang Nyie Lin, Tan Sok Mooi and Phang Yeen Aun have resigned as directors of Nutraphyll since 14 June 2017. Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun, and Phang Yeen Hung have disposed their entire equity interest in Nutraphyll to a non-related party on 17 August 2017. Pursuant to the disposal of their equity interest and resignation as directors, transactions with Nutraphyll will no longer be deemed as a related party transaction.
- (ii) Phang Nyie Lin, Phang Yeen Nung, Phang Yeen Aun, and Phang Yeen Hung have resigned as directors of Axiana on 30 June 2017.
- (iii) Since FYE 2017, our Group has not sold any of our House Brand products to Phang Too May. Our Directors also confirm that our Group will not enter into such transactions in the future.
- (iv) Our Directors confirm that future sale of raw materials to All Day Pharmacy will be at arm's length basis.

After our Listing and in accordance with the Listing Requirements, our Company will be required to seek shareholders' approval each time our Group enters into material related party transactions. However, if a related party transaction is deemed as a recurrent related party transaction, our Company may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time it wishes to enter into such related party transactions during the validity period of the mandate.

Under the Listing Requirements, related party transactions may be aggregated to determine its materiality if the transactions occur within a 12-month period, are entered with the same party or with parties connected to one another or if the transactions involve the acquisition or disposal of securities or interests in one particular corporation/ asset or of various parcels of long contiguous to each other.



## **10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST** *(cont'd)*

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### **10.3 INTERESTS IN SIMILAR BUSINESS OR CONFLICTS OF INTEREST**

As at the LPD, none of our Directors and substantial shareholders has any interest, direct or indirect, in other businesses or corporations carrying on a trade similar to that of our Group or give rise to a situation of conflict of interests with the Group's business.

Save as disclosed below and in the table set out in Section 10.2.2, as at the LPD, none of our Directors and/ or substantial shareholders has any interest, direct or indirect, in any other businesses or corporations which are a customer or supplier of the Group:

- (i) Sulaiman bin Haji Ahmad, our Non-Independent Non-Executive Director is a director of Kinrara Agency Sdn Bhd and his wife and son are shareholders of Kinrara Agency Sdn Bhd. Kinrara Agency Sdn Bhd is also a customer of our Group and principally involved in insurance agency, retail pharmacy and supply of medicines and disposable to hospital.

Our Board is of the opinion that the conflict of interest situation arising from the interests and directorship of Sulaiman bin Haji Ahmad in Kinrara Agency Sdn Bhd is mitigated in view that he does not hold any executive roles in our Group and does not participate in our operational matters which are managed by our Executive Directors and key management.

Moving forward, our Group intends to continue the supply of our products to Kinrara Agency Sdn Bhd on an as-needed basis. Our Audit Committee will supervise the terms of the transactions, if any and our Directors will report the transactions annually in our Company's annual report. Sulaiman bin Haji Ahmad, shall also abstain from any Board deliberation and voting on the relevant resolution(s) in respect of such transactions. As at the LPD, there is no agreement entered into with Kinrara Agency Sdn Bhd.

- (ii) Phang Nynie Lin and Phang Yeen Aun, our Directors and substantial shareholders, are also non-executive directors and shareholders in Vision Biotech. They are not involved in the day-to-day operations and management for Vision Biotech. Vision Biotech is principally involved in trading in all kinds of premix and animal health products. In view that we have discontinued the animal health business since 9 January 2017, our Directors do not foresee any conflict of interest situation.

The involvement of Phang Nynie Lin and Phang Yeen Aun in Vision Biotech does not require significant amount of time as they are not involved in the day-to-day operations and management of the company and is thus not expected to affect their ability to perform their executive roles and responsibilities to our Group.

Notwithstanding the above, in the event of a conflict of interest situation, such Directors and substantial shareholders are obliged, if required by law or regulations, to abstain from voting on the resolutions relating to such matters or transactions that require the approval of our shareholders in respect of their direct and indirect interests. Further, their board representatives are obliged, if required by law or regulations, to abstain from deliberations and voting on the resolutions relating to such matters or transactions.

### **10.4 OTHER TRANSACTIONS**

Save as disclosed in Section 10.2.2, our Directors have confirmed that, to the best of their knowledge and belief, there are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Company or any of our subsidiaries was a party for the Financial Years Under Review, FPE 2017 and up to the LPD.

There are no loans, including guarantees of any kind and/ or financial assistance, made by our Group to or for the benefit of our related parties for the Financial Years Under Review, FPE 2017 and up to the LPD.

## **10. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST** *(cont'd)*

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### **10.5 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST**

Upon Listing, our Board, through our Audit Committee, will ensure that any related party transactions (inclusive of recurrent related party transactions) are carried out on normal commercial terms which are not more favourable to the related parties than those generally available to third parties dealing at arm's length and are not to the detriment of the Group.

Our Audit Committee will supervise the terms of related party transactions and our Directors will report related party transactions, if any, annually in our Company's annual report. In the event there are any proposed related party transactions that involve the interest, direct or indirect, of our Directors, the interested Director(s) shall disclose his interest to our Board, of the details of the nature and extent of his interest, including all matters in relation to the proposed related-party transactions that he is aware or should reasonably be aware of, which is not in our best interests. The interested Director(s) shall also abstain from any Board deliberation and voting on the relevant resolution(s) in respect of such proposed related-party transactions.

In the event there are any proposed related party transactions that require the prior approval of shareholders, the Directors, major shareholders and/ or persons connected with a Director or major shareholder, which have any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/ or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transactions, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/ or indirect shareholdings. Such interested Directors and/ or major shareholders will also undertake that he shall ensure that the persons connected with him will abstain from voting on the resolution approving the proposed related party transaction at the general meeting.

### **10.6 DECLARATIONS BY EXPERTS**

#### **10.6.1 Declaration by Kenanga IB**

Kenanga IB confirms that there is no existing or potential conflict of interest in relation to its capacity as the Principal Adviser, Sponsor, Underwriter and Placement Agent in respect of our IPO.

#### **10.6.2 Declaration by Wong Beh & Toh**

Wong Beh & Toh confirms that there is no existing or potential conflict of interest in its capacity as the Legal Adviser in respect of our IPO.

#### **10.6.3 Declaration by Mazars PLT**

Mazars PLT confirms that there is no existing or potential conflict of interest in its capacity as the Reporting Accountants in respect of our IPO.

#### **10.6.4 Declaration by Protégé**

Protégé confirms that there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher in respect of our IPO.

## 11. FINANCIAL INFORMATION

### 11.1 REPORTING ACCOUNTANTS' LETTER ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION



Date: 1 June 2018

The Board of Directors  
**Nova Wellness Group Berhad**  
2-1, Jalan Sri Hartamas 8  
Sri Hartamas  
50480 Kuala Lumpur

Dear Sirs,

#### **REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION INCLUDED IN THE PROSPECTUS OF NOVA WELLNESS GROUP BERHAD FOR THE PROPOSED LISTING OF AND QUOTATION FOR ITS ENTIRE ENLARGED ISSUED AND PAID-UP ORDINARY SHARES ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD**

We have completed our assurance engagement to report on the compilation of the pro forma financial information of Nova Wellness Group Berhad (the "Company") and its subsidiary (collectively, the "Group") prepared by the directors of the Company. The pro forma financial information consists of the pro forma consolidated statement of financial position of the Group as at 31 December 2017 and related notes, as set out in the appendix, which we have stamped for identification purposes.

The applicable criteria on the basis of which the directors of the Company have compiled the pro forma financial information are specified in the *Prospectus Guidelines* issued by the Securities Commission Malaysia (the "Guidelines") and set out in section 4 in the accompanying pro forma financial information.

The pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the transactions set out in section 4 in the accompanying pro forma financial information on the Group's financial position as at 31 December 2017 as if the transactions had taken place at the date set out in section 4 in the accompanying pro forma financial information. As part of this process, information about the Group's financial position have been extracted by the directors of the Company from the financial statements of the Group for the financial period from 1 July 2017 to 31 December 2017, on which an audit report has been issued.

#### *The Directors' Responsibility for the Pro Forma Financial Information*

The directors of the Company are responsible for compiling the pro forma financial information on the basis set out in section 4 in the accompanying pro forma financial information and in accordance with the Guidelines.

With effect from 17 February 2017, Mazars, a conventional partnership, was converted to Mazars PLT (LLP0010622-LCA), a limited liability partnership.

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MAZARS PLT (LLP0010622-LCA) (AF001954)  
CHARTERED ACCOUNTANTS



11. FINANCIAL INFORMATION (cont'd)

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Nova Wellness Group Berhad  
Page 2

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants* and the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies *International Standard on Quality Control 1* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Reporting Accountants' Responsibilities*

Our responsibility is to express an opinion, as required by the Guidelines, about whether the pro forma financial information has been compiled, in all material respects, by the directors of the Company, on the basis set out in section 4 in the accompanying pro forma financial information.


We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled, in all material respects, the pro forma financial information on the basis set out in section 4 in the accompanying pro forma financial information.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction, when it occur, would have been as presented.

11. FINANCIAL INFORMATION (cont'd)

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 M A Z A R S

Nova Wellness Group Berhad  
Page 3

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the entity, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the accompanying pro forma financial information has been compiled, in all material respects, on the basis set out in section 4 in the accompanying pro forma financial information.

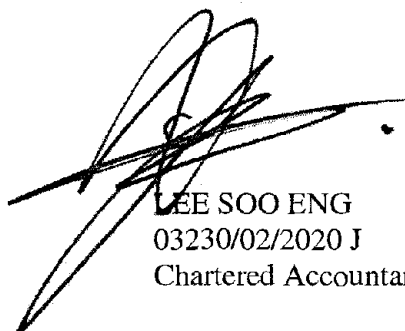
*Other Matters*

This letter has been prepared solely for inclusion in the prospectus of the Company in connection with the proposed listing of and quotation for its entire enlarged issued and paid-up ordinary shares on the ACE Market of Bursa Malaysia Securities Berhad, and should not be used or relied upon for any other purposes.

Yours faithfully,



MAZARS PLT  
LLP0010622-LCA  
AF 001954  
Chartered Accountants



LEE SOO ENG  
03230/02/2020 J  
Chartered Accountant

**11. FINANCIAL INFORMATION (cont'd)**

Nova Wellness Group Berhad  
 Pro Forma Financial Information  
 As at and for the year ended 31 December 2017

**1. GENERAL INFORMATION**

We set out herein the pro forma financial information (the “Pro Forma Financial Information”) relating to Nova Wellness Group Berhad (“Nova Wellness”) and its subsidiary company (hereinafter referred to as “Nova Wellness Group”) which have been prepared by us solely for illustrative purposes, for inclusion in the prospectus of Nova Wellness in connection with the initial public offering of new ordinary shares in Nova Wellness (the “IPO”) and the listing of and quotation for the entire enlarged issued and paid-up share capital of Nova Wellness on the ACE Market of Bursa Malaysia Securities Berhad (the “Listing”).

The Pro Forma Financial Information comprise the pro forma consolidated statement of financial position of Nova Wellness Group as at 31 December 2017.

**2. THE LISTING SCHEME**

In conjunction with, and as an integral part of the Listing, we shall undertake the Listing Scheme detail of which are set out as follows:

***Public Issue***

The proposed public issue of 81,660,000 new ordinary shares at an issue price of RM0.55 for each new share comprising:

- (i) 16,000,000 new shares available for application by Malaysian public;
- (ii) 15,000,000 new shares available for application by the eligible directors, employees and business associates of Nova Wellness Group; and
- (iii) 50,660,000 new shares available for application by way of private placement to identified investors.

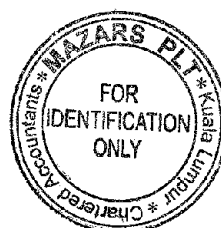
***The Listing***

In line with the IPO, Nova Wellness will seek the listing of and quotation for the entire enlarged issued share capital comprising 317,743,815 ordinary shares on the ACE Market of Bursa Malaysia Securities Berhad.

**3. UTILISATION OF IPO PROCEEDS**

The proceeds from the IPO would be utilised in the following manner:

	RM'000
Construction of new production facility	16,500
Research and development activities	11,600
Expansion of retail market presence	5,000
Working capital	9,213
Estimated listing expenses	2,600
	44,913



11. FINANCIAL INFORMATION (cont'd)

Nova Wellness Group Berhad  
Pro Forma Financial Information  
As at and for the year ended 31 December 2017

4. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION

The Pro Forma Financial Information has been prepared and compiled in accordance with the requirements of the *Prospectus Guidelines* issued by the Securities Commission Malaysia.

The Pro Forma Financial Information is prepared solely for illustrative purposes:

- Pro forma consolidated statement of financial position has been prepared to illustrate the effects of the return of dividends, the capital reduction, the share subdivision, the Listing Scheme and the utilisation of IPO Proceeds on the financial position of Nova Wellness Group.
- For purposes of preparation of the pro forma consolidated statement of financial position, the return of dividends, the capital reduction, the share subdivision, the Listing Scheme and the utilisation of IPO Proceeds are assumed to have taken place on 31 December 2017.

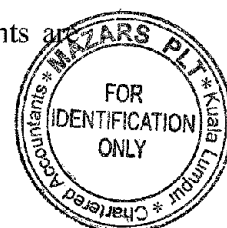
The Pro Forma Financial Information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of Nova Wellness Group on or after 31 December 2017. Accordingly, the actual financial position of Nova Wellness Group upon completion of the return of dividends, the capital reduction, the share subdivision, the Listing Scheme and the utilisation of IPO Proceeds, would not have been as presented.

The Pro Forma Financial Information have been compiled using the financial statements of Nova Wellness Group for the financial period from 1 July 2017 to 31 December 2017, which were prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

For purposes of the Pro Forma Financial Information, all financial information is presented in Ringgit Malaysia, and rounded to the nearest thousand, unless otherwise stated.

The Pro Forma Financial Information has been prepared in a manner consistent with the financial statements of Nova Wellness Group and using uniform accounting policies for like transactions and other events in similar circumstances, which are consistent with the accounting policies adopted by Nova Wellness Group in the preparation of its financial statements. Significant accounting policies applied in the compilation of the Pro Forma Financial Information are as follows:

- All intra-group balances, transactions, income and expenses are eliminated in full on consolidation.
- Costs incurred directly attributable to the issuance of equity instruments are accounted for as a deduction from equity.



## 11. FINANCIAL INFORMATION (cont'd)

Nova Wellness Group Berhad  
Pro Forma Financial Information  
As at 31 December 2017

## 5. PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017 RM'000	Adjustment RM'000	Pro Forma I RM'000	Adjustment RM'000	Pro Forma II RM'000	Adjustment RM'000	Pro Forma III RM'000
<b>ASSETS</b>								
<b>Non-current assets</b>								
Investment properties		241	-	241	-	241	-	241
Property, plant and equipment	5.1	12,731	-	12,731	-	12,731	16,500	29,231
Intangible assets	5.2	4,408	-	4,408	-	4,408	3,100	7,508
		17,380	-	17,380	-	17,380	-	36,980
<b>Current assets</b>								
Inventories		5,573	-	5,573	-	5,573	-	5,573
Trade and other receivables	5.3	10,335	-	10,335	(697)	9,638	-	9,638
Current tax asset		754	-	754	-	754	-	754
Cash and bank balances	5.4	1,487	1,951	3,438	44,913	48,351	(35,129)	13,222
		18,149	-	20,100	-	64,316	-	29,187
		35,529	-	37,480	-	81,696	-	66,167
<b>TOTAL ASSETS</b>								
<b>EQUITY AND LIABILITIES</b>								
<b>Equity</b>								
Share capital		23,641	(8,480)	15,161	44,913	60,074	-	60,074
Retained earnings		20,939	2,657	23,596	(2,480)	21,116	(13,500)	7,616
Restructuring reserve		(14,226)	-	(14,226)	-	(14,226)	-	(14,226)
		30,354	-	24,531	-	66,964	-	53,464
<b>Non-current liabilities</b>								
Deferred tax liabilities		131	-	131	-	131	-	131
Government grants		3,375	-	3,375	-	3,375	-	3,375
Amount owing to shareholders	5.7	-	7,774	7,774	-	7,774	-	7,774
		3,506	-	11,280	-	11,280	-	11,280
<b>Current liabilities</b>								
Trade and other payables		1,667	-	1,667	1,783	3,450	(2,029)	1,421
Amount owing to a director		2	-	2	-	2	-	2
		1,669	-	1,669	-	3,452	-	1,423
		5,175	-	12,949	-	14,732	-	12,703
		35,529	-	37,480	-	81,696	-	66,167
<b>TOTAL EQUITY AND LIABILITIES</b>								
Net tangible assets (RM'000)		25,946	-	20,123	-	62,556	-	45,956
Net assets (RM'000)		30,354	-	24,531	-	66,964	-	53,464
Number of ordinary shares in issue (shares)		236,410,000	-	236,083,815 *	-	317,743,815	-	317,743,815
Net assets per ordinary shares (RM)		0.13	-	0.10	-	0.21	-	0.17

\* Number of ordinary shares in issue upon completion of the share subdivision.





11. FINANCIAL INFORMATION (cont'd)

Nova Wellness Group Berhad  
Pro Forma Financial Information  
As at and for the year ended 31 December 2017

5. PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Pro forma consolidated statement of financial position of Nova Wellness Group has been prepared solely to illustrate the effects on the financial position of Nova Wellness Group as at 31 December 2017 on the assumption that the return of dividends, the capital reduction, the share subdivision, the Listing Scheme and the utilisation of IPO Proceeds to have taken place on that date.

Adjustments made to the audited consolidated statement of financial position of Nova Wellness Group as at 31 December 2017 are as below:

***Pro Forma I: The Pre-Listing Exercise***

Pro Forma I illustrates the financial position of Nova Wellness Group after incorporating the effects of the return of dividends, the capital reduction and the share subdivision.

***Return of Dividends***

From 30 March 2018 to 13 April 2018, the then shareholders of the subsidiary of Nova Wellness, Nova Laboratories Sdn Bhd ("Nova Laboratories"), returned dividends paid by Nova Laboratories in respect of financial year ending 30 June 2018 amounting to RM2,000,900.

***Capital Reduction***

Nova Wellness undertook a capital reduction exercise to reduce 85,316,358 ordinary shares which is payable to the then shareholders over a period of 2 years from the completion of the capital reduction.

***Share Subdivision***

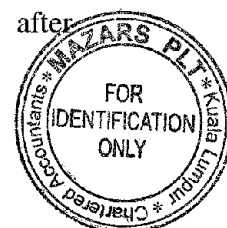
Upon completion of the capital reduction, Nova Wellness undertook a share subdivision of every sixteen (16) existing ordinary shares of Nova Wellness held into twenty-five (25) ordinary shares. The share subdivision has no impact to the financial position of Nova Wellness.

***Pro Forma II: The Listing Scheme***

Pro Forma II illustrates the financial position of Nova Wellness Group after incorporating the effects as set out in Pro Forma I and the Listing Scheme and the recognition of listing expenses.

***Pro Forma III: The utilisation of IPO Proceeds***

Pro Forma III illustrates the financial position of Nova Wellness Group after incorporating the effects of Pro Forma II and the utilisation of IPO Proceeds.



**11. FINANCIAL INFORMATION (cont'd)**

Nova Wellness Group Berhad  
Pro Forma Financial Information  
As at and for the year ended 31 December 2017

***Notes to the pro forma consolidated statement of financial position***

## 5.1 Property, plant and equipment

	RM'000
As at 31 December 2017, Pro Forma I and II	12,731
Utilisation of IPO Proceeds	<u>16,500</u>
Pro Forma III	<u>29,231</u>

## 5.2 Intangible assets

	RM'000
As at 31 December 2017, Pro Forma I and II	4,408
Utilisation of IPO Proceeds (note)	<u>3,100</u>
Pro Forma III	<u>7,508</u>

Note: The IPO Proceeds that is planned to be utilised for research and development activities amounting to RM11,600,000. The breakdown of the planned research and development expenditure is as follows:

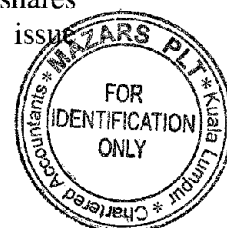
	RM'000
Amount to be capitalised as intangible assets	3,100
Amount to be charged to profit or loss (note 5.6)	<u>8,500</u>
	<u>11,600</u>

RM3,100,000 of the total planned research and development expenditure is expected to be capitalised as intangible assets in accordance with the accounting policies of Nova Wellness Group. Solely for the purpose of this pro forma consolidated statement of financial position, the remaining planned research and development expenditure of RM8,500,000 is expected to be charged to profit or loss.

## 5.3 Trade and other receivables

	RM'000
As at 31 December 2017 and Pro Forma I	10,335
Reversal of deferred listing expenditure (note)	<u>(697)</u>
Pro Forma II and III	<u>9,638</u>

Note : Prior to the completion of the IPO, shares issue costs are recognised as deferred expenditure. Upon completion of the IPO, the deferred shares issue costs shall be set off against equity. The deferred shares issue costs are set off against retained earnings as set out in note 5.6.



**11. FINANCIAL INFORMATION (cont'd)**

Nova Wellness Group Berhad  
Pro Forma Financial Information  
As at and for the year ended 31 December 2017

**5.4 Cash and bank balances**

	RM'000
As at 31 December 2017	1,487
Return of dividends (note 5.6)	2,001
Settlement of capital reduction expenses (note 5.6)	<u>(50)</u>
Pro Forma I	3,438
Public Issue	<u>44,913</u>
Pro Forma II	48,351
Utilisation of IPO Proceeds (note)	<u>(35,129)</u>
Pro Forma III	<u>13,222</u>

Note: Breakdown of utilisation of IPO Proceeds is as follows:

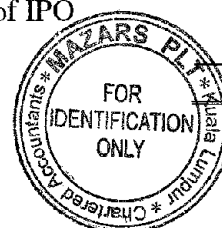
	RM'000
Construction of new production facility	16,500
Research and development expenditure	11,600
Expenditure on expansion of retail market presence (note 5.6)	5,000
Listing expenses (net of listing expenses paid prior to the IPO) (note 5.8)	<u>2,029</u>
	<u>35,129</u>

**5.5 Share capital**

	RM'000
As at 31 December 2017	23,641
Capital reduction	<u>(8,480)</u>
Pro Forma I	15,161
Public Issue	<u>44,913</u>
Pro Forma II and III	<u>60,074</u>

**5.6 Retained earnings**

	RM'000
As at 31 December 2017	20,939
Return of dividends (note 5.4)	2,001
Notional interest adjustment (note a)	706
Recognition of expenses on capital reduction (note 5.4)	<u>(50)</u>
Pro Forma I	23,596
Recognition of estimated listing expenses (note b)	<u>(2,480)</u>
Pro Forma II	21,116
Recognition of expenses arising from utilisation of IPO Proceeds (note c)	<u>(13,500)</u>
Pro Forma III	<u>7,616</u>



11. FINANCIAL INFORMATION (cont'd)

Nova Wellness Group Berhad  
 Pro Forma Financial Information  
 As at and for the year ended 31 December 2017

Note (a): Notional interest adjustment to the long-term amount payable to the then shareholders (i.e. financial liability measured at amortised cost) arising from the capital reduction, see note 5.7.

Note (b): The breakdown of estimated listing expenses set off against equity or charged to profit or loss is as follows:

	RM'000
Deferred shares issue costs set off against equity upon completion of the IPO (note 5.3)	697
Recognition of remaining listing expenses (note 5.8)	<u>1,783</u>
	<u>2,480</u>

Note (c): The utilisation of IPO Proceeds in respect of the following items are charged to profit or loss:

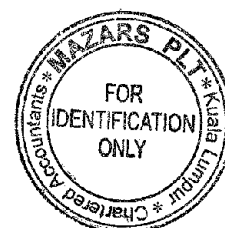
	RM'000
Research and development expenditure (note 5.2)	8,500
Expenditure on expansion of retail market presence (note 5.4)	<u>5,000</u>
	<u>13,500</u>

5.7 Amount owing to shareholders

The long-term amount payable to shareholders (i.e. financial liability measured at amortised cost) arising from the capital reduction is payable to the then shareholders of Nova Wellness over 2 years upon completion of the capital reduction. The amount set out in Pro Forma I, II and III respectively represents the present value of the liability owing to the then shareholders.

5.8 Trade and other payables

	RM'000
As at 31 December 2017 and Pro Forma I	1,667
Recognition of remaining listing expenses (note 5.6)	<u>1,783</u>
Pro Forma II	3,450
Settlement of accrued listing expenses (note 5.4)	<u>(2,029)</u>
Pro Forma III	<u>1,421</u>



11. FINANCIAL INFORMATION (cont'd)

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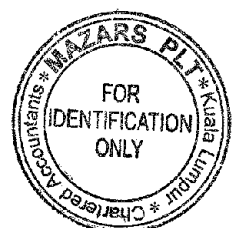
Nova Wellness Group Berhad  
Pro Forma Financial Information  
As at and for the year ended 31 December 2017

6. APPROVAL

The Pro Forma Financial Information is approved by the board of directors of Nova Wellness in accordance with a directors' resolution dated - 1 JUN 2018

  
PHANG NYIE LIN  
Director

  
SIM SENG LOONG  
Director



**11. FINANCIAL INFORMATION (cont'd)****11.2 HISTORICAL FINANCIAL INFORMATION**

Nova Wellness was incorporated on 27 July 2016. Nova Wellness acquired the entire issued share capital in Nova Laboratories on 24 October 2017 and the Acquisition was completed on the same date.

The following table sets out a summary of the combined statements of comprehensive income and combined statements of financial position of our Group for the Financial Years Under Review, unaudited FPE 2016 and audited FPE 2017. The financial statements should be read in conjunction with the Accountants' Report as set out in Section 12.

Statements of comprehensive income	Audited			Unaudited	Audited
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FPE 2016 RM'000	FPE 2017 RM'000
Revenue	22,847	24,270	24,541	12,578	12,486
Cost of sales	(6,091)	(6,572)	(6,957)	(3,441)	(3,986)
Gross profit	16,756	17,698	17,584	9,137	8,500
Other income or gains	240	283	567	257	320
Administrative expenses	(1,390)	(1,677)	(2,623)	(1,212)	(1,856)
Selling and distribution expenses	(2,352)	(2,221)	(1,739)	(1,004)	(969)
Other operating expenses	(945)	(531)	(179)	(160)	(120)
PBT	12,309	13,552	13,610	7,018	5,875
Tax (expense)/ income	(30)	(16)	100	205	(1,367)
<b>Profit for the year, and total comprehensive income for the year</b>	<b>12,279</b>	<b>13,536</b>	<b>13,710</b>	<b>7,223</b>	<b>4,508</b>
Profit for the year attributable to:					
Equity holders of our Company	<b>12,279</b>	<b>13,536</b>	<b>13,710</b>	<b>7,224</b>	<b>4,508</b>
GP margin (%) <sup>(1)</sup>	73.3	72.9	71.7	72.6	68.1
PBT margin (%) <sup>(2)</sup>	53.9	55.8	55.5	55.8	47.1
Net profit margin (%) <sup>(3)</sup>	53.7	55.8	55.9	57.4	36.1
Effective tax rate (%)	0.2	0.1	(0.7)	(3.0)	23.3
EBITDA (RM'000)	12,737	13,918	14,021	7,208	6,038
Number of Shares assumed in issue ('000)	935	935	935	935	88,654
Basic and diluted EPS (RM) <sup>(4)(5)</sup>	13.13	14.48	14.66	7.73	0.05

**Notes:**

- (1) GP margin is computed based on GP over revenue.
- (2) PBT margin is computed based on PBT over revenue.
- (3) Net profit margin is computed based on profit for the year over revenue.
- (4) Basic and diluted EPS is computed based on the profit for the year divided by the issued share capital.
- (5) Our Group does not have any outstanding convertible securities.

## 11. FINANCIAL INFORMATION (cont'd)

Statements of financial position	Audited			Audited
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FPE 2017 RM'000
<u>Non-current assets</u>				
Investment properties	247	244	242	241
Property, plant and equipment	4,127	3,745	3,664	12,731
Intangible assets	3,283	3,769	4,261	4,408
<b>Total non-current assets</b>	<b>7,657</b>	<b>7,758</b>	<b>8,167</b>	<b>17,380</b>
<u>Current assets</u>				
Inventories	4,923	5,930	5,918	5,573
Trade and other receivables	10,619	8,156	9,185	10,335
Current tax assets	5	4	1,003	754
Cash and bank balances	1,737	4,666	2,058	1,487
<b>Total current assets</b>	<b>17,284</b>	<b>18,756</b>	<b>18,164</b>	<b>18,149</b>
<b>Total Assets</b>	<b>24,941</b>	<b>26,514</b>	<b>26,331</b>	<b>35,529</b>
<u>Equity</u>				
Share capital	935	935	935	23,641
Restructuring reserve	-	-	-	(14,226)
Retained earnings	18,423	16,803	18,432	20,939
<b>Total Equity</b>	<b>19,358</b>	<b>17,738</b>	<b>19,367</b>	<b>30,354</b>
<u>Non-current liabilities</u>				
Deferred tax liabilities	249	266	165	131
Government grants	2,947	3,160	3,119	3,375
<b>Total non-current liabilities</b>	<b>3,196</b>	<b>3,426</b>	<b>3,284</b>	<b>3,506</b>
<u>Current liabilities</u>				
Trade and other payables	2,386	5,349	3,678	1,667
Amount owing to a director	1	1	2	2
<b>Total current liabilities</b>	<b>2,387</b>	<b>5,350</b>	<b>3,680</b>	<b>1,669</b>
<b>Total liabilities</b>	<b>5,583</b>	<b>8,776</b>	<b>6,964</b>	<b>5,175</b>
<b>Total equity and liabilities</b>	<b>24,941</b>	<b>26,514</b>	<b>26,331</b>	<b>35,529</b>

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## 11. FINANCIAL INFORMATION *(cont'd)*

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### 11.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis should be read together with the Accountants' Report and the related notes as set out in Section 12.

This discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those anticipated in these forward-looking statements as a result of any number of factors, particularly the risk factors as set out in Section 4.

#### 11.3.1 Revenue

We are an investment holding company and through our subsidiary, Nova Laboratories, we are currently principally involved in the development, production and sales of nutraceutical products and skincare products under our House Brand as well as OEM development and production of nutraceutical products.

Historically, we were also involved in the development and production of animal health products that is used to treat and prevent diseases for animals. Our manufacturing for animal health products ceased on 30 June 2015 and since then we have outsourced the manufacturing of these products to an independent third party manufacturer and continued trading in these products. However, since 9 January 2017, we ceased the trading of these animal health products to focus on the development and production of our House Brand products and OEM products, which is our principal business activity. Our discussion and analysis for the Financial Years Under Review under this section includes our animal health products.

Our Group's total revenue grew by RM1.69 million or approximately 7.4% to RM24.54 million for the FYE 2017 from RM22.85 million for the FYE 2015, which represented a CAGR of approximately 3.6%.

#### Revenue by business segments

Our business segments for the Financial Years Under Review are as follows:

- |               |   |  |
|---------------|---|--|
| House Brand   | : | Development, production and sales of nutraceutical products which includes dietary supplements and functional food products, and skincare products under our House Brand |
| OEM           | : | OEM development and production of nutraceutical products which includes dietary supplements and functional food products for the OEM customers under their brand         |
| Animal health | : | Development and production of animal health products, to treat and prevent diseases for animals  |

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**11. FINANCIAL INFORMATION (cont'd)**

The breakdown of our revenue generated by business segments is set out below:

Revenue	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
House Brand:										
- Dietary supplements	9,801	42.9	9,994	41.2	13,618	55.5	7,583	60.3	6,628	53.2
- Functional food	3,093	13.5	4,177	17.2	3,920	16.0	1,784	14.2	1,826	14.6
- Skincare	44	0.2	28	0.1	22	0.1	14	0.1	68	0.5
Total House Brand	12,938	56.6	14,199	58.5	17,560	71.6	9,381	74.6	8,522	68.3
OEM	7,956	34.8	8,142	33.6	6,259	25.5	2,475	19.7	3,964	31.7
Animal health	1,953	8.6	1,929	7.9	722	2.9	722	5.7	-	-
<b>Total</b>	<b>22,847</b>	<b>100.0</b>	<b>24,270</b>	<b>100.0</b>	<b>24,541</b>	<b>100.0</b>	<b>12,578</b>	<b>100.0</b>	<b>12,486</b>	<b>100.0</b>

The majority of our revenue is derived from the House Brand segment, which contributed approximately 56.6%, 58.5% and 71.6% of our Group's total revenue for FYE 2015, FYE 2016 and FYE 2017 respectively. Our revenue from House Brand products is derived mainly from dietary supplements and functional foods, which represents approximately 56.4%, 58.4% and 71.5% of our Group's total revenue for FYE 2015, FYE 2016 and FYE 2017 respectively. Our skincare products' contribution to our Group's total revenue is approximately 0.2%, 0.1% and 0.1% for FYE 2015, FYE 2016 and FYE 2017 respectively.

For FPE 2016 and FPE 2017, our House Brand segment contributed approximately 74.6% and 68.3% of our Group's total revenue respectively. The dietary supplements and functional foods represent approximately 74.5% and 67.8% of our Group's total revenue in FPE 2016 and FPE 2017, while our skincare product contributed approximately 0.1% and 0.5% to our Group's revenue in FPE 2016 and FPE 2017 respectively. As at the LPD, we have 49 dietary supplements, 11 functional foods and 28 skincare products.

Our OEM segment is the second largest contributor to our Group's revenue, and attributed for approximately 34.8%, 33.6% and 25.5% of our Group's total revenue for FYE 2015, FYE 2016 and FYE 2017 respectively. For FPE 2016 and FPE 2017, our OEM segment contributed approximately 19.7% and 31.7% to our Group's total revenue respectively.

Animal health segment contributed approximately 8.6% and 7.9% of our Group's total revenue for FYE 2015 and FYE 2016 respectively. Our Group has discontinued the production of animal health products since 30 June 2015 and ceased trading of these products since 9 January 2017. As a result, the animal health segment only contributed 2.9% of our Group's total revenue for FYE 2017. We did not record any revenue for our animal health products in FPE 2017 as we have ceased trading of these products since 9 January 2017.

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**11. FINANCIAL INFORMATION (cont'd)****Revenue by geographical location**

The breakdown of our revenue generated by geographical location is set out below:

	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	20,718	90.7	21,131	87.1	23,225	94.6	11,526	91.6	12,005	96.1
Overseas										
- Cambodia	351	1.5	-	-	-	-	-	-	-	-
- Hong Kong	306	1.3	1,636	6.7	526	2.2	402	3.2	383	3.1
- Pakistan	425	1.9	733	3.0	128	0.5	128	1.0	-	-
- Indonesia	-	-	-	-	5	-	2	-	-	-
- Vietnam	442	1.9	586	2.4	422	1.7	422	3.4	-	-
- Singapore	137	0.6	-	-	235	1.0	98	0.8	98	0.8
- Japan	468	2.1	184	0.8	-	-	-	-	-	-
Total overseas market	2,129	9.3	3,139	12.9	1,316	5.4	1,052	8.4	481	3.9
<b>Total Revenue</b>	<b>22,847</b>	<b>100.0</b>	<b>24,270</b>	<b>100.0</b>	<b>24,541</b>	<b>100.0</b>	<b>12,578</b>	<b>100.0</b>	<b>12,486</b>	<b>100.0</b>

Our Group's revenue is predominantly from Malaysia. The revenue from local market grew by RM2.51 million or approximately 12.1% to RM23.23 million for the FYE 2017 from RM20.72 million for the FYE 2015, which represented a CAGR of approximately 5.9%. Our customers in the local market are mainly:

- (i) retail pharmacies and outlets that sell our House Brand products to the retail market; and
- (ii) OEM customers that mainly sell dietary supplement products, developed and manufactured by us, under their own brand to the retail market.

Our revenue from the overseas market is mainly derived from our OEM and animal health segment. The main market for our OEM products is Hong Kong and Singapore which collectively accounted for approximately 1.9%, 6.7%, 3.2% and 3.9% of our total revenue for the Financial Years Under Review and FPE 2017 respectively. The main market for our animal health products are in Vietnam, Pakistan and Cambodia which accounted for approximately 5.3%, 5.4% and 2.2% of our total revenue for the FYE 2015, FYE 2016 and FYE 2017 respectively.

Our overseas sales are mainly denominated in USD for the Financial Years Under Review. Our revenue from our overseas market declined by RM0.81 million or approximately 38.0% to RM1.32 million in FYE 2017 from RM2.13 million in FYE 2015, which represented CAGR of approximately -21.3%.

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**11. FINANCIAL INFORMATION** (cont'd)**Commentary on Revenue****Comparison between FYE 2015 and FYE 2016**

Our revenue increased by RM1.42 million or approximately 6.2% in FYE 2016 compared to FYE 2015 mainly due to increase in the sales of our House Brand and OEM products.

The revenue generated by our House Brand products increased by RM1.26 million or approximately 9.7% in FYE 2016 compared to FYE 2015. The increase in revenue for our House Brand was mainly due to increase in orders for our existing functional food products sold under our Activmax brand of RM1.08 million from RM3.09 million in FYE 2015 to RM4.18 million in FYE 2016. Additionally, we had in fourth quarter FYE 2015 introduced a new range of products under the Activmax brand focusing on weight control and breakfast that also contributed to the higher volume of sales of the Activmax range of products. We also recorded a marginal increase of RM0.19 million for our dietary supplements during the FYE 2016 as compared to FYE 2015, which was our biggest revenue contributor for both FYE 2015 and FYE 2016. The increase was mainly due to the increase in the volume of orders for our bone and joint health supplement product in FYE 2016. The marginal decrease in our skincare products was due to lower volume of orders for two of our products namely, our Novavis SP8 Deep Cleansing Facial Wash and SP8 Ficus WhitePro Sun Defense. Our skincare products were distributed mainly through Nutraphyll outlets. The decrease in volume of orders for these 2 products were due to the lower demand for the products from end users during the financial year.

The marginal increase in our OEM segment of RM0.19 million or approximately 2.4% in FYE 2016 compared to FYE 2015 was mainly due to an increase in the volume of orders our OEM dietary supplement products amounting to RM0.84 million from our OEM customer in Hong Kong in FYE 2016. This increase was offset by the decrease in volume of orders for two of our OEM products amounting to RM0.72 million. The two products were for a local and foreign OEM customer respectively. Our OEM revenue also includes revenue from CRAUN Research amounting to RM0.60 million and RM0.32 million in FYE 2015 and FYE 2016, respectively.

Our animal health segment recorded a marginal decrease of RM0.02 million or approximately 1.0% in FYE 2016 compared to FYE 2015 mainly due to cessation of the trading for 19 of our animal health products which contributed RM0.48 million of the sales in FYE 2015.

Our revenue derived from Malaysia recorded an increase of RM0.41 million or approximately 2.0% in FYE 2016 compared to FYE 2015. The increase in the local revenue contribution was mainly due to an increase in volume of orders for our House Brand functional food products from the local retail pharmacies and outlets.

We also recorded an increase in the revenue generated from overseas market by RM1.01 million or approximately 47.4% in FYE 2016 compared to FYE 2015 mainly due to the increase in the volume of orders for our two OEM dietary supplement products in Hong Kong. There were no sales recorded for our House Brand products in the overseas market in FYE 2015 and FYE 2016.

**Comparison between FYE 2016 and FYE 2017**

Our Group recorded a marginal increase in revenue of RM0.27 million or approximately 1.1% in FYE 2017 compared to FYE 2016, mainly due to the higher sales for our House Brand products. The increase in the revenue generated from the House Brand segment for FYE 2017 is however offset by the decrease in the revenue generated for our OEM and animal health segment during the FYE 2017.

The increase in revenue from our House Brand segment of RM3.36 million or approximately 23.7% in FYE 2017 compared to FYE 2016 was mainly due to the higher sales of our dietary supplement products arising from an increase in the volume of orders from our NWPP partners.

## 11. FINANCIAL INFORMATION (cont'd)

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The higher sales in FYE 2017 were mainly driven by the two rounds of promotional activities we undertook during the financial year which involved price bundling and discounts for promotional packs of some of our dietary supplement products. We generated an additional RM1.77 million from the sale of five of our dietary supplement products under promotional packs during the financial year. In addition, there was an increase in the volume for our standard dietary supplement products by RM1.96 million in FYE 2017 compared to FYE 2016. However, we recorded a marginal decrease of RM0.26 million or 6.2% for our functional food products in FYE 2017. The decrease was mainly due to decrease in order volume for two of our products under our Activmax brand during the financial year as our customers purchased more dietary supplement products due to our price bundling promotion and discounts. The decrease in revenue from our skincare products was due to lower volume of orders for two of our skincare products namely, Novavis SP8 Deep Cleansing Facial Wash and SP8 Ficus WhitePro Sun Defense as a result of lower demand from end users in FYE 2017.

Our OEM and animal health segment recorded lower revenue of RM3.09 million or approximately 30.7% in FYE 2017 compared to FYE 2016 mainly due to:

- (i) decrease in overseas OEM sales of RM1.11 million. The decrease was mainly due to lower volume of orders for our dietary supplement products under our OEM segment from our customer in Hong Kong;
- (ii) decrease in local OEM sales of RM0.9 million due to lower orders for two of our OEM dietary supplement products; and
- (iii) decrease in animal health products sales of RM1.21 million, of which RM0.76 million is from overseas sales as a result of the cessation of our animal health products during the FYE 2017. The revenue of RM0.72 million generated during the FYE 2017 is for a period of six months from July 2016, until we ceased trading on 9 January 2017.

The orders from OEM customers were based on purchase orders on an as-needed basis.

We recorded a growth in the revenue in Malaysia of RM2.09 million or approximately 9.9% in FYE 2017 compared to FYE 2016 mainly due to higher sales of our dietary supplements under our House Brand in the local market arising from our promotional activities. We recorded a decrease in the revenue generated from the overseas segment of RM1.82 million or approximately 58.0% in FYE 2017 compared to FYE 2016.

### **Comparison between FPE 2016 and FPE 2017**

Our Group recorded a marginal decrease in revenue of RM0.09 million in FPE 2017 compared to FPE 2016, despite higher sales for our OEM products. The decrease was mainly due to decrease in revenue for our House Brand segment and the cessation of animal health segment in FPE 2017.

The decrease in revenue from our House Brand segment of RM0.86 million or approximately 0.9% in FPE 2017 was mainly due to the decrease in the volume of orders for our dietary supplement products from our NWPP partners. We had in FPE 2016 and in early 2017 carried out promotional activities, which had driven the sales during the periods. However, in FPE 2017, we recorded lower sales as we did not carry out any promotional activities. However, we recorded an increase in revenue for our functional foods and skincare products. The increase in revenue for our functional food was mainly due to increase in order volume for one of our existing products under our Activmax brand during the financial period for RM0.04 million. The increase in revenue of RM0.05 million for our skincare products was due to higher volume of orders for our SP8 series of skincare products as we started to distribute the skincare products through our NWPP partners.

## 11. FINANCIAL INFORMATION (cont'd)

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Our OEM segment recorded higher revenue of RM1.49 million or approximately 60.1% in FPE 2017 compared to FPE 2016 mainly due to the increase in volume of orders for existing products and increase in number of products ordered from two of our local OEM customers. We did not record any revenue for FPE 2017 for our animal health products segment as we ceased the trading on 9 January 2017.

We recorded a marginal growth in the revenue in Malaysia of RM0.48 million or approximately 4.2% in FPE 2017 compared to FPE 2016 mainly due to higher sales of our OEM products. The increase was offset by the decrease in revenue generated by our House Brand segments for RM0.86 million and the cessation of the animal health segment. We recorded a decrease in the revenue generated from overseas segment of RM0.57 million or approximately 54.3% in FPE 2017 compared to FPE 2016 mainly due to the cessation of our animal health products.

### 11.3.2 Cost of Sales

Our costs of sales incurred are in relation to the cost of manufacturing of nutraceutical products, our OEM products and animal health products.

The major components of our cost of sales are as follows:

- Raw materials and packaging materials consumed in our production. Raw materials include high oleic sunflower oil powder, calcium caseinate food grade, fish oil, gelatin, oat bran, vitamins, herbs and glucosamine. Packaging materials include HDPE bottle, bottle glass, cap, and induction seal. Please refer Section 6.14 for the details of the raw materials for our production.
- Movement in work-in-progress and finished goods inventory during the year. Work-in-progress refers to inventory that is in the intermediary stage of production and finished goods refer to the final stage of inventory prior to sale of the product. The movement captures the year-on-year movement of closing inventories in work-in-progress and finished goods.
- Direct labour cost comprising salaries of factory workers and production workers.
- Factory overheads, including utility expenses, and repair and maintenance of machineries and equipment, depreciation of plant and machineries. As at FYE 2017, 49.9% of our plant and machineries and factory equipment have been fully depreciated, but are still in usable condition.

In tandem with our growth in revenue, our Group's cost of sales grew by RM0.87 million or approximately 14.3%, to RM6.96 million for the FYE 2017 from RM6.09 million for the FYE 2015, which represented a CAGR of approximately 6.9%. The cost of sales for our business operations constituted approximately 26.7%, 27.1%, 28.3% and 31.9% of our Group's total revenue for the Financial Years Under Review and FPE 2017 respectively.

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**11. FINANCIAL INFORMATION (cont'd)****Cost of sales by components**

The breakdown of our cost of sales by major components for the Financial Years Under Review, FPE 2016 and FPE 2017 are as set out below:

Cost of sales	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials consumed	4,191	68.8	4,206	64.0	4,545	65.3	2,030	59.0	2,413	60.5
Movement of work-in-progress and finished goods	350	5.7	553	8.4	414	6.0	482	14.0	413	10.4
Direct labour cost	716	11.8	895	13.6	1,118	16.1	503	14.6	658	16.5
Factory overheads*	834	13.7	918	14.0	880	12.6	426	12.4	502	12.6
<b>Total</b>	<b>6,091</b>	<b>100.0</b>	<b>6,572</b>	<b>100.0</b>	<b>6,957</b>	<b>100.0</b>	<b>3,441</b>	<b>100.0</b>	<b>3,986</b>	<b>100.0</b>

**Note:**

\* Includes the depreciation cost of our plant and machineries and factory equipment amounting to RM0.35 million, RM0.35 million, RM0.37 million and RM0.18 million for the Financial Years Under Review and FPE 2017, respectively.

The raw materials purchased from our suppliers overseas, contributed 66.0%, 62.1%, 64.4% and 55.2% of our total cost of sales for the Financial Years Under Review and FPE 2017 respectively. Most of our suppliers in China charge in RMB and USD but are paid in USD.

**Cost of sales by business segments**

The breakdown of our cost of sales by business segments is set out below:

Cost of sales	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
House Brand										
- Dietary supplements	1,609	26.4	1,420	21.6	3,017	43.4	1,564	45.5	1,715	43.0
- Functional food	1,385	22.8	1,920	29.2	1,930	27.7	796	23.1	820	20.6
- Skincare	8	0.1	3	0.1	2	-	3	0.1	15	0.4
Total cost of sales of House Brand	3,002	49.3	3,343	50.9	4,949	71.1	2,363	68.7	2,550	64.0
OEM	2,181	35.8	2,319	35.3	1,637	23.5	707	20.5	1,436	36.0
Animal health	908	14.9	910	13.8	371	5.4	371	10.8	-	-
<b>Total</b>	<b>6,091</b>	<b>100.0</b>	<b>6,572</b>	<b>100.0</b>	<b>6,957</b>	<b>100.0</b>	<b>3,441</b>	<b>10.0</b>	<b>3,986</b>	<b>100.0</b>

**11. FINANCIAL INFORMATION (cont'd)****Cost of sales by geographical location**

The breakdown of our cost of sales by geographical location is as set out below:

Cost of Sales	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	5,179	85.0	5,549	84.4	6,497	93.4	3,043	88.4	3,855	96.7
Overseas	912	15.0	1,023	15.6	460	6.6	398	11.6	131	3.3
<b>Total</b>	<b>6,091</b>	<b>100.0</b>	<b>6,572</b>	<b>100.0</b>	<b>6,957</b>	<b>100.0</b>	<b>3,441</b>	<b>100.0</b>	<b>3,986</b>	<b>100.0</b>

**Commentary on Cost of Sales****Comparison between FYE 2015 and FYE 2016**

Our cost of sales increased by RM0.48 million or approximately 7.9% in FYE 2016 compared to FYE 2015 due to an increase in the movement of our work-in-progress and finished goods, the increase in the direct labour cost and a marginal increase in the factory overheads during the FYE 2016 as set out below:

- (i) We recorded an increase in the movement of our work-in-progress and finished goods of RM0.20 million, mainly due an increase in closing work-in-progress inventories as a result of an increase in production of our Fish Oil product promo pack and Hepar-P in the last quarter of FYE 2016. The increase in production was in line with management's anticipation of higher sales of the products in FYE2017.
- (ii) The increase in our direct labour cost of approximately RM0.18 million in FYE 2016 was due to the increase in headcount of our production workers from 25 to 42.
- (iii) The higher factory overheads in FYE 2016 compared to FYE 2015 was mainly due to the higher electricity and water charges arising from higher production activities during FYE 2016; and the cost incurred for the repair and maintenance of the machineries and equipment in our factory during the second quarter of FYE 2016 amounting to an increase of RM58,942 compared to FYE 2015.

The overall increase in cost of sales is in line with the increase in revenue from FYE 2015 to FYE 2016.

The higher cost of sales for the House Brand segment of RM0.34 million or approximately 11.3% for the FYE 2016 compared to FYE 2015 was due to an increase in the movement of work-in-progress and finished goods by RM0.20 million which accounted for 3.3% of our total cost of sales. The higher cost of sales was driven by the higher sales for our House Brand products during FYE 2016.

The increase in the cost of sales for our OEM segment of RM0.14 million or approximately 6.4% in FYE 2016 was due to the following:

- (i) higher utility charges arising from increase in production activities for our OEM segment; and
- (ii) higher costs incurred for the repair and maintenance of machineries and equipment in the second quarter of FYE 2016 that resulted in an increase in the overhead costs for our OEM segment.

There was a marginal increase in the cost of sales for our animal health segment for the FYE 2016 compared to the cost of sales for the FYE 2015 as we started to outsource the manufacturing of our animal health products to a third party manufacturer from June 2015.

## 11. FINANCIAL INFORMATION (cont'd)

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The increase in the cost of sales for Malaysia and overseas market are in line with the higher sales for our products specifically in the House Brand and OEM segments from the FYE 2015 to the FYE 2016.

### Comparison between FYE 2016 and FYE 2017

Our Group's cost of sales increased by RM0.39 million or approximately 5.9% in FYE 2017 compared to FYE 2016 mainly due to the following:

- (i) increase in raw materials consumed during the financial year arising from an increase in volume of orders for our products under the House Brand segments;
- (ii) increase direct labour cost of RM0.22 million or approximately 24.6% in FYE 2017 compared to FYE 2016 arising from an annual salary increment and higher bonus for the production workers during the financial year;
- (iii) lower movement of work-in-progress and finished goods for FYE 2017 as compared to FYE 2016 of RM0.14 million. The lower finished goods inventory in FYE 2017 was due to an increase in the sales of our House Brand products in FYE 2017. The work-in-progress inventory reduced in FYE 2017 mainly due to better production planning during the year resulting in lower closing inventories stock. We undertook better production planning to minimize the production time and ensure timely delivery to customers to meet the increasing demand of our House Brand products during the year.
- (iv) lower factory overheads in FYE 2017 as compared to FYE 2016, mainly due to the decrease in repair and maintenance of the machineries and our factory of RM0.08 million.

The higher cost of sales for the House Brand segment of RM1.61 million or approximately 48.2% in FYE 2017 compared to FYE 2016 was due to higher consumption of raw materials and increase in direct labour cost. The higher consumption of raw materials was driven by the higher volume of sales for the House Brand products. In line with the increase in sales, the direct labour cost allocated for our House Brand products was higher during the financial year.

There was a decrease in the cost of sales for our OEM segment of RM0.68 million or approximately 29.3% in FYE 2017 compared to FYE 2016. This was due to a decrease in raw materials consumed for the production of OEM products in line with the decrease in sales in the OEM segment for the FYE 2017.

There was also a decrease of RM0.54 million or approximately 59.3% in FYE 2017 compared to FYE 2016 for the cost of sales for our animal health segment as a result of the cessation of trading of our animal health products on 9 January 2017.

The increase in the cost of sales for Malaysia for the FYE 2017 is in tandem with the higher sales of our products specifically in the House Brand segment. The decrease of RM0.56 million from RM1.02 million for our cost of sales for the overseas segment was mainly due to lower sales for our OEM products and animal health products overseas by 58.1% during the FYE 2017.

### Comparison between FPE 2016 and FPE 2017

Our Group's cost of sales increased by RM0.55 million or approximately 15.8% in FPE 2017 compared to FPE 2016 mainly due to the following:

- (i) increase in raw materials consumed of RM0.38 million during the financial period arising from an increase in price of raw materials used in five of our House Brand products. The increase in cost was due to the purchase of our raw materials from a different supplier. We had sourced from a different supplier in FPE 2017 mainly due to the unavailability of the required raw materials from the previous supplier;



**11. FINANCIAL INFORMATION** (cont'd)

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- (ii) increase in direct labour cost of RM0.16 million or approximately 30.8% in FPE 2017 compared to FPE 2016 arising from an annual salary increment and higher bonus for the production workers during the financial period; and
- (iii) higher factory overheads in FPE 2017 as compared to FPE 2016 mainly due to the increase in laboratory testing cost for our products and repair and maintenance of our machineries of RM0.04 million and RM0.03 million respectively. The increase in laboratory testing cost was mainly due to increase in number of products manufactured in-house.

The higher cost of sales for the House Brand segment of RM0.19 million or approximately 7.9% in FPE 2017 compared to FPE 2016 was due to higher cost of raw materials used in five of our dietary supplements products and increase in direct labour cost.

There was an increase in the cost of sales for our OEM segment of RM0.73 million or approximately 103.1% in FPE 2017 compared to FPE 2016. This was mainly due to an increase in raw materials consumed for the production of OEM products in line with the increase in the volume of orders for OEM products. The increase in the cost of sales were also contributed from a higher repair and maintenance cost incurred for our machineries and higher direct labour cost arising from an annual salary increment for our production workers in FPE 2017 compared to FPE 2016.

The increase in the cost of sales for Malaysia for the FPE 2017 was mainly due to the increase in cost of sales for our local OEM products. The decrease of cost of sales for our overseas segment was due to the cessation of our animal health products on 9 January 2017.

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## 11. FINANCIAL INFORMATION (cont'd)

### 11.3.3 GP and GP Margin

Our Group's total GP grew from RM16.76 million in FYE 2015 to RM17.58 million in FYE 2017, representing a CAGR of approximately 2.4%. However, our overall GP margin had decreased from 73.3% for the FYE 2015 to 71.7% for the FYE 2017.

#### GP and GP margin by segments

The breakdown of our GP and GP margin by segments are as set out below:

GP	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
House Brand										
-Dietary supplements	8,192	48.9	8,574	48.4	10,601	60.3	6,019	65.9	4,914	57.9
-Functional food	1,708	10.1	2,257	12.8	1,990	11.3	988	10.8	1,006	11.8
-Skincare	36	0.3	25	0.1	20	0.1	11	0.1	53	0.6
Total GP of House Brand	9,936	59.3	10,856	61.3	12,611	71.7	7,018	76.8	5,973	70.3
OEM	5,775	34.5	5,823	32.9	4,622	26.3	1,768	19.4	2,527	29.7
Animal health products	1,045	6.2	1,019	5.8	351	2.0	351	3.8	-	-
<b>Total GP</b>	<b>16,756</b>	<b>100.0</b>	<b>17,698</b>	<b>100.0</b>	<b>17,584</b>	<b>100.0</b>	<b>9,137</b>	<b>100.0</b>	<b>8,500</b>	<b>100.0</b>
<b>GP Margin</b>										
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	%		%		%		%		%	
House Brand										
-Dietary supplements	83.6		85.8		77.8		79.4		74.1	
-Functional food	55.2		54.0		50.8		55.4		55.1	
-Skincare	81.8		89.3		90.9		78.6		77.9	
Total GP Margin of House Brand	76.8		76.5		71.8		74.8		70.1	
OEM	72.6		71.5		73.8		71.4		63.8	
Animal health products	53.5		52.9		48.7		48.6		-	
<b>Overall GP margin</b>	<b>73.3</b>		<b>72.9</b>		<b>71.7</b>		<b>72.6</b>		<b>68.1</b>	

**11. FINANCIAL INFORMATION (cont'd)****GP and GP margin by geographical location**

The breakdown of our GP and GP margin by geographical locations are as set out below:

GP	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	15,539	92.7	15,582	88.0	16,728	95.1	8,483	92.8	8,150	95.9
Overseas	1,217	7.3	2,116	12.0	856	4.9	654	7.2	350	4.1
<b>Total GP</b>	<b>16,756</b>	<b>100.0</b>	<b>17,698</b>	<b>100.0</b>	<b>17,584</b>	<b>100.0</b>	<b>9,137</b>	<b>100.0</b>	<b>8,500</b>	<b>100.0</b>

GP Margin	Audited			Unaudited		Audited	
	FYE 2015	FYE 2016	FYE 2017	FPE 2016	FPE 2017		
	%	%	%	%	%		
Malaysia	75.0	73.7	72.0	73.6	67.9		
Overseas	57.2	67.4	65.1	62.2	72.8		

**Commentary on GP and GP Margin****Comparison between FYE 2015 and FYE 2016**

Our overall GP for the FYE 2016 increased by RM0.94 million or approximately 5.6% in FYE 2016 compared to FYE 2015 mainly due to the higher sales for our Activmax brand under our House Brand products during the FYE 2016. We recorded a marginal decrease in the overall GP margin in FYE 2016 compared to FYE 2015 due a decrease in the GP margin in functional food, OEM and animal health products.

Under the House Brand segment, the increase in GP was mainly due to an increase in order volume for our existing functional food products sold under the Activmax brand. The GP margin decreased marginally by 0.4% compared to FYE 2015 due to the increase in our cost of sales arising from the higher movement of work-in-progress and finished goods inventory for our House Brand products.

The GP margin for dietary supplements increased from 83.6% in FYE 2015 to 85.8% in FYE 2016. The increase in the GP margin was mainly due to lower cost per unit for three of our dietary supplements as a result of lower cost of raw materials and packaging materials in FYE 2016. The lower cost of raw materials and packaging materials were due to the decrease in cost of purchases as a result of change in suppliers during the financial year. The GP margin of our functional food products decreased by 1.2% in FYE 2016 compared to FYE 2015 mainly due to increase in cost of raw materials for our Activmax Brand products arising from foreign exchange fluctuations in FYE 2016.

We recorded marginal increase in GP for our OEM segment of RM0.05 million in FYE 2016 compared to FYE 2015. However, there was a decline in GP margin for our OEM segment to 71.5% for the FYE 2016 from 72.6% for the FYE 2015. This decline was mainly due to an increase in the factory overheads cost absorbed by the OEM segment from the repair and maintenance of machinery and equipment in FYE 2016.

There was a decline in our GP and our GP margin for our animal health segment as a result of lower sales of our animal health products and the higher cost due to outsourcing of our production of animal health products to a third party manufacturer.

## 11. FINANCIAL INFORMATION (cont'd)

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Our GP in Malaysia recorded a marginal increase of RM0.04 million during the FYE 2016 compared to our GP during the FYE 2015 in line with the higher sales of our House Brand products in Malaysia for the FYE 2016. The lower GP margin however, was mainly due to higher factory overheads cost for our OEM segment.

The higher GP for our overseas market during the FYE 2016 as compared to the FYE 2015 was mainly due to an increase in sales for our overseas market for our OEM products. Our GP margin for the overseas market increased from 57.2% for the FYE 2015 to 67.4% for the FYE 2016 mainly due to the higher overseas OEM sales, which has a higher GP margin as compared to animal health products.

### **Comparison between FYE 2016 and FYE 2017**

For the FYE 2017, our overall GP decreased by RM0.11 million or approximately 0.6% compared to FYE 2016. The higher GP of our House Brand segment was however offset by the decrease in GP for our OEM and animal health segments. The overall GP margin decreased by 1.2% from 72.9% for the FYE 2016 to 71.7% for the FYE 2017 mainly due the lower GP margin recorded for our House Brand segment.

Our GP for our House Brand segment increased by RM1.76 million or approximately 16.2% in FYE 2017 compared to FYE 2016 mainly due to higher sales for dietary supplements products during the FYE 2017 of RM3.62 million as a result of our promotional activities. The promotional activities included price bundling and discounts for promotional packs of our dietary supplement products. The discounted prices resulted in a decline in our GP margin for the House Brand segment for the FYE 2017 as compared to the FYE 2016.

The GP for our OEM segment decreased by RM1.20 million in FYE 2017 compared to FYE 2016 mainly due to lower OEM sales recorded during the financial year. However, our GP margin for the OEM segment increased by 2.3% mainly due to lower repair and maintenance of our machinery and factory cost as compared to FYE 2016, which resulted in lower production cost per unit.

Our GP for animal health segment also decreased by RM0.67 million or approximately 65.7% in FYE 2017 compared to FYE 2016 in line with the lower sales for the FYE 2017 as we ceased the trading of our animal health products since 9 January 2017. The decrease in GP margin for our animal health segment from 52.9% for the FYE 2016 to 48.7% was mainly due to the higher cost per unit incurred from the outsourcing of the production of our animal health products to a third party manufacturer from June 2015.

Our GP for Malaysia increased by RM1.15 million or approximately 7.4% in FYE 2017 compared to FYE 2016 due to higher sales of our House Brand products during the FYE 2017. However, our GP margin decreased for the Malaysian segment in FYE 2017 mainly due to the promotional activities which resulted in lower margin for our House Brand products during the financial year.

The decrease in GP for our overseas market during the FYE 2017 as compared to the FYE 2016 was in line with the decrease in sales from the overseas market. Our GP margin for the overseas market decreased from 67.4% for the FYE 2016 to 65.1% for the FYE 2017 was mainly due to higher cost incurred from outsourcing the manufacturing of our animal health products to a third party manufacturer.

### **Comparison between FPE 2016 and FPE 2017**

For the FPE 2017, our overall GP decreased by RM0.64 million or approximately 7.0% compared to FPE 2016. The overall GP margin decreased by 4.5% from 72.6% for the FPE 2016 to 68.1% for FPE 2017 mainly due the higher cost of sales for our dietary supplements products under House Brand segment.

**11. FINANCIAL INFORMATION (cont'd)**

The GP for our House Brand segment decreased by RM1.05 million or approximately 14.9% in FPE 2017 compared to FPE 2016 was mainly due to the higher price of our raw materials for five of our dietary supplements products as a result of purchasing from a different supplier due to unavailability of raw materials with the previous supplier. In addition, the decrease was also due to higher direct labour cost as a result of higher bonus and increment for our production workers. The higher cost resulted in a decline in our GP margin for the House Brand segment for the FPE 2017 as compared to the FPE 2016.

The GP for our OEM segment decreased by RM0.76 million in FPE 2017 compared to FPE 2016 was mainly due to higher cost of sales incurred for OEM segment during the financial period. GP margin for the OEM segment decreased by 7.6% mainly due to higher repair and maintenance of our machineries and higher direct labour cost arising from an annual salary increment for our production workers in FPE 2017 compared to FPE 2016.

The decrease in GP for Malaysia by RM0.33 million or approximately 3.9% in FPE 2017 compared to FPE 2016 due to the higher cost of raw materials used for five House Brand products during the FPE 2017. Additionally, there was an increase in the overhead cost and labour cost for our locally distributed OEM products. These increases in cost had resulted in a lower GP margin for the Malaysian segment for FPE 2017.

The GP for our overseas market decreased by RM0.30 million during the FPE 2017 as compared to the FPE 2016 mainly due to the cessation of our animal health products in January 2017. The cessation of our animal health products also resulted in our GP margin for the overseas market to increase from 62.2% for the FPE 2016 to 72.8% for the FPE 2017.

**11.3.4 Other income**

The breakdown of our other income is as set out below:

Other income	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Gain on foreign exchange	61	25.3	133	47.0	-	-	66	25.7	4	1.3
Amortisation for deferred income	30	12.5	65	23.0	41	7.3	16	6.2	46	14.5
Interest income	3	1.2	-	-	5	0.8	-	-	9	2.7
Allowance for doubtful debts no longer required	-	-	-	-	328	57.9	42	16.3	201	62.8
Sale of raw materials	-	-	-	-	157	27.7	121	47.1	34	10.6
Government grant/fees <sup>(1)</sup>	146	61.0	85	30.0	36	6.3	12	4.7	26	8.1
<b>Total</b>	<b>240</b>	<b>100.0</b>	<b>283</b>	<b>100.0</b>	<b>567</b>	<b>100.0</b>	<b>257</b>	<b>100.0</b>	<b>320</b>	<b>100.0</b>

**Note:**

- (1) Mainly comprise government grant in relation to the research costs incurred and claimed from government and fee from our OEM customers for registration with the NPRA.

## 11. FINANCIAL INFORMATION (cont'd)

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### **Commentary on Other Income**

#### **Comparison between FYE 2015 and FYE 2016**

Our total other income increased by RM0.04 million or approximately 16.6% in FYE 2016 compared to FYE 2015 mainly due to an increase in foreign exchange gain, other income and amortisation for deferred income.

The increase in the foreign exchange gain of RM0.07 million from RM0.06 million for the FYE 2015 to RM0.13 million for the FYE 2016 are mainly from our overseas sales in Hong Kong, Pakistan and Vietnam for our OEM and animal health products. The increase was mainly due to the appreciation of the exchange rate of the USD against the MYR.

Our other income mainly comprise of government grant of RM0.15 million for the FYE 2015 and RM0.08 million for the FYE 2016 in relation to our R&D.

The amortisation for deferred income increased by RM0.04 million in FYE 2016 compared to FYE 2015 due to acquisition of R&D equipment during the FYE 2016. The amortisation of deferred income was in relation to government grants to compensate us for the cost of the R&D equipment and recognised as deferred income in the statement of financial position. The deferred income is amortised to profit or loss on a systematic basis over the expected useful life of the R&D equipment.

#### **Comparison between FYE 2016 and FYE 2017**

Our Group recorded higher other income of RM0.28 million or approximately 99.0% in FYE 2017 as compared to FYE 2016. This increase was mainly due to the allowance of doubtful debts no longer required and sale of raw materials during the FYE 2017.

We recorded other income of RM0.04 million for the FYE 2017 mainly in relation to:

- (i) new product registration fee from our OEM customers for registration with the NPRA; and
- (ii) product development for our OEM customers.

Allowance of doubtful debts no longer required of RM0.33 million was mainly due to repayment from an overseas customer which had been provided for in FYE 2015.

The sale of raw materials in FYE 2017 of RM0.16 million was in relation to the following:

- (i) sale of raw materials, which was used for the manufacturing of animal health products to Vision Biotech amounting to RM0.13 million. The raw materials were no longer required as we had ceased manufacturing of animal health products in FYE 2015.
- (ii) sale of raw materials to All Day Pharmacy amounting to RM0.03 million.

The decrease in amortisation for deferred income of RM0.02 million in FYE 2017 compared to FYE 2016 was mainly due to lower amortisation of R&D equipment as some of the equipment acquired had been fully amortised.

#### **Comparison between FPE 2016 and FPE 2017**

Our Group recorded higher other income of RM0.06 million or approximately 24.5% in FPE 2017 as compared to FPE 2016. The increase was mainly due to the increase in allowance of doubtful debts no longer required during the FPE 2017.

**11. FINANCIAL INFORMATION (cont'd)**

We recorded other income of RM0.03 million for the FPE 2017 mainly in relation to:

- (i) new product registration fee from our OEM customers for registration with the NPRA; and
- (ii) product development for our OEM customers.

The increase in allowance of doubtful debts no longer required of RM0.20 million was mainly due to the settlement of debt by our local customer which had been provided for in FYE 2015.

The lower sale of raw materials in FPE 2017 compared to FPE 2016 was mainly due to lesser raw materials sold to Vision Biotech. The raw materials, which were used for the manufacturing of our animal health products, were no longer required, as we have ceased manufacturing of our animal health products since FYE 2015.

The increase in amortisation for deferred income of RM0.03 million in FPE 2017 compared to FPE 2016 was mainly due to higher amortisation of R&D equipment.

**11.3.5 Administrative expenses**

Administrative expenses represented approximately 6.1%, 6.9%, 10.5% and 14.9% of our Group's total revenue for FYE 2015, FYE 2016, FYE 2017 and FPE 2017 respectively. Our administrative expenses consist mainly of staff costs, directors' remuneration as well as research costs incurred.

The breakdown of our administrative expenses is set out below:

Administrative expenses	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	745	53.6	919	54.8	1,352	51.5	656	54.1	1,108	59.7
Directors' remuneration	155	11.2	173	10.3	235	9.0	107	8.8	196	10.6
Audit fee	7	0.5	45	2.7	128	4.9	-	-	30	1.6
Depreciation	108	7.8	79	4.7	53	2.1	30	2.5	34	1.8
PPE written off	-	-	78	4.6	-	-	-	-	-	-
Professional fee	14	1.0	18	1.1	193	7.4	97	8.0	62	3.3
Other miscellaneous administrative expenses <sup>(1)</sup>	361	25.9	365	21.8	662	25.2	322	26.6	426	23.0
<b>Total administrative expenses</b>	<b>1,390</b>	<b>100.0</b>	<b>1,677</b>	<b>100.0</b>	<b>2,623</b>	<b>100.0</b>	<b>1,212</b>	<b>100.0</b>	<b>1,856</b>	<b>100.0</b>

**Note:**

- (1) Other miscellaneous administrative expenses mainly include travelling expenses, staff messing fee, halal registration fee, annual dinner expenses, insurance, electricity and water, repair and maintenance of office equipment, road tax, printing and stationery, and telephone charges.

## 11. FINANCIAL INFORMATION (cont'd)

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### **Commentary on Administrative Expenses**

#### **Comparison between FYE 2015 and FYE 2016**

Our administrative expenses increased by 20.9% or RM0.29 million in FYE 2016 as compared to FYE 2015 mainly due to the increase in staff cost, directors remuneration, audit fee, PPE written off and other miscellaneous administrative expenses incurred during the FYE 2016.

Our staff cost increased by RM0.17 million in FYE 2016 compared to FYE 2015 mainly due to an increase in the number of employees from 15 in FYE 2015 to 18 during the FYE 2016.

The increase in directors' remuneration of RM0.02 million for the FYE 2016 was due to bonus paid to directors.

There was also an increase of RM0.08 million for PPE written off for the FYE 2016 due to writing off of testing equipment that was damaged and no longer in usable condition.

We adopted the straight line depreciation method for our assets over their estimated useful lives, which range from 5 years to 12.5 years. The decrease in our depreciation expense from RM108,000 in FYE 2015 to RM79,000 in FYE 2016 was mainly due to the increase in the number of fully depreciated assets in FYE 2016. This resulted in lesser assets being depreciated in FYE 2016.

The increase in other miscellaneous expenses for the FYE 2016 was mainly due to increase in electricity and water charges incurred during the financial year.

The increase in professional fee of RM4,000 in FYE 2015 compared to FYE 2016 was mainly due to legal fees incurred during the FYE 2016.

#### **Comparison between FYE 2016 and FYE 2017**

The increase in our administrative expenses RM0.95 million or approximately 56.4% for the FYE 2017 compared to FYE 2016 was due to an increase in administrative staff cost, directors' remuneration, audit fee, professional fee and other miscellaneous administrative expenses incurred during the FYE 2017.

The increase in administrative staff cost of RM0.43 million in FYE 2017 compared to FYE 2016 was mainly due to increase in number of employees from 18 to 25 for our business operations and annual salary increment during the FYE 2017.

The directors' remuneration of RM0.06 million in FYE 2017 was higher due to the bonus paid to the directors during the financial year.

The increase in audit fee and professional fee were due to the fees incurred in relation to our Listing.

The decrease in our depreciation expense from RM79,000 in FYE 2016 to RM53,000 in FYE 2017 was mainly due to the increase in number of fully depreciated assets in FYE 2017. This resulted in lesser assets being depreciated in FYE 2017.

The increase in other miscellaneous administrative expenses for the FYE 2016 was mainly due to:

- (i) license fee paid for application of temporary building permit from MPS for the structures as set out in Section 6.21.1; and
- (ii) increase in travelling expenses incurred for our employees in relation to business development to visit potential customers and suppliers.



**11. FINANCIAL INFORMATION (cont'd)**

The decrease in depreciation during the FYE 2017 was due to lesser assets being depreciated in the FYE 2017 as compared to FYE 2016. These assets however are still in good working condition due to our regular maintenance to ensure compliance with GMP requirements.

**Comparison between FPE 2016 and FPE 2017**

The increase in our administrative expenses of RM0.64 million or approximately 53.1% for the FPE 2017 compared to FPE 2016 was due to an increase in administrative staff cost, directors' remuneration, audit fee, and other miscellaneous administrative expenses incurred during FPE 2017.

The increase in administrative staff cost of RM0.45 million in FPE 2017 compared to FPE 2016 were mainly due to the increase in number of employees from 25 to 26 for our business operations, which involved employees with higher salaries and annual salary increment during the FPE 2017.

The directors' remuneration of approximately RM0.09 million in FPE 2017 was higher due to the adjustment in the directors' remuneration during the financial period resulting in higher remuneration paid to directors.

The increase in other miscellaneous administrative expenses for the FPE 2017 was mainly due to the increase in travelling expenses in relation to our Listing and business development.

The increase in depreciation for the period ended 31 December 2017 was due an increase in assets purchased in FYE 2017.

**11.3.6 Selling and distribution expenses**

Selling and distribution expenses represented approximately 10.3%, 9.1% and 7.1% of our Group's total revenue for FYE 2015, FYE 2016 and FYE 2017 respectively.

The breakdown of our selling and distribution expenses is set out below:

Selling and Distribution Expenses	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	817	34.7	925	41.7	561	32.3	347	34.5	191	19.7
Sales commission for staff	424	18.0	466	21.0	118	6.8	84	8.4	36	3.7
Sales commission for NWPP partners	823	35.0	550	24.8	860	49.4	483	48.1	646	66.7
Promotional expenses	30	1.3	32	1.4	10	0.6	7	0.7	3	0.3
Travelling expenses	200	8.5	216	9.7	138	7.9	72	7.2	74	7.6
Registration fees	46	2.0	19	0.9	52	3.0	11	1.1	19	2.0
Others selling and distribution expenses <sup>(1)</sup>	12	0.5	13	0.5	-	-	-	-	-	-
<b>Total selling and distribution expenses</b>	<b>2,352</b>	<b>100.0</b>	<b>2,221</b>	<b>100.0</b>	<b>1,739</b>	<b>100.0</b>	<b>1,004</b>	<b>100.0</b>	<b>969</b>	<b>100.0</b>

## 11. FINANCIAL INFORMATION (cont'd)

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**Note:**

(1) Other selling and distribution expenses include exhibition expenses, entertainment and refreshment.

### **Commentary on Selling and Distribution Expenses**

#### **Comparison between FYE 2015 and FYE 2016**

Our overall selling and distribution expenses decreased by RM0.13 million or approximately 5.6% in FYE 2016 compared to the FYE 2015 mainly due to a decrease in sales commission for our NWPP partners and registration fees paid.

The decrease of RM0.27 million in FYE 2016 compared to FYE 2015 in the sales commission for NWPP partners was mainly due to a revision of our commission structure for our NWPP partners leading to lower commission paid during the FYE 2016. We had revised the sales commission structure in FYE 2016 by correlating the sales commissions to the sales target.

The registration fees comprise of fees paid to NPRA for the registration and renewal of product registration for our dietary supplements and skincare products under our House Brand and for our OEM customers. There was a decrease in the registration fee as we had registered lesser products during the financial year compared to FYE 2015.

The decrease in the sales commission for our NWPP partners and registration fees were offset by an increase in staff costs, sales commission for our staff and travelling expenses of RM0.11 million, RM0.04 million and RM0.02 million, respectively. The increase in the staff costs was due to higher bonus paid to the sales staff in the second quarter of FYE 2016. However there was a decrease in number of employees from nine employees as at FYE 2015 to six employees as at FYE 2016. The decrease was mainly due to the resignations of three employees. The increase in the travelling expenses by RM0.02 million was mainly due to higher travel allowances paid during FYE 2016.

#### **Comparison between FYE 2016 and FYE 2017**

Our selling and distribution expenses decreased by RM0.48 million or approximately 21.6% in FYE 2017 compared to FYE 2016. This is mainly due to a decrease in number of sales staff which resulted in lower sales commission and travelling expenses, and a decrease in promotional expenses in FYE 2017.

The increase of RM0.31 million in the sales commission for NWPP partners in FYE 2017 compared to FYE 2016 was mainly due to an increase in the sales of our House Brand products to our NWPP partners during the financial year.

The lower staff costs in FYE 2017 was due to a restructuring of our sales and marketing department which resulted in a reduction in the number of our sales and marketing employees from 6 to 3 employees. This resulted in the lower sales and marketing costs, by RM0.36 million, RM0.35 million and RM0.08 million, for staff costs, sales commission for staff and travelling expenses respectively for the FYE 2017.

Our promotional expenses decreased by RM0.02 million in FYE 2017 compared to FYE 2016 as we provided lesser promotional materials for our partners under the NWPP during the financial year.

We did not record any other selling and distribution expenses as we had not incurred any exhibition and entertainment expenses during the FYE 2017 compared to FYE 2016.

The decrease in our overall selling and distribution expenses for the FYE 2017 was however partly offset by the increase of RM0.03 million in the registration fees from RM0.02 million for the FYE 2016 to RM0.05 million for the FYE 2017 as we had registered more products with NPRA during the financial year.

**11. FINANCIAL INFORMATION (cont'd)****Comparison between FPE 2016 and FPE 2017**

Our selling and distribution expenses decreased by RM0.03 million or approximately 3.5% in FPE 2017 compared to FPE 2016. This is mainly due to a decrease in number of sales staff which resulted in lower sales commission and staff cost, and an increase in sales commission for NWPP partners in FPE 2017.

The increase of RM0.16 million in the sales commission for NWPP partners in FPE 2017 compared to FPE 2016 was mainly due to an increase in the number of NWPP partners who achieved the minimum monthly purchase during the financial period.

The lower staff costs and sales commission for staff in FPE 2017 was due to the restructuring of our sales and marketing department which resulted in a reduction in the number of sales and marketing employees from six as at FPE 2016 to two employees as at the FPE 2017.

Our promotional expenses decreased by RM0.04 million in FPE 2017 compared to FPE 2016 as we provided lesser promotional materials for our partners under the NWPP during the financial period.

We recorded an increase of RM8,000 in the registration fees from RM11,000 for the FPE 2016 to RM19,000 for the FPE 2017 as we had registered more products with NPRA during the financial period.

**11.3.7 Other expenses**

Other expenses represented approximately 4.1%, 2.2%, 0.7% and 1.0% of our Group's total revenue for the Financial Years Under Review and FPE 2017 respectively.

The breakdown of our other expenses is as set out below:

Other expenses	Audited						Unaudited		Audited	
	FYE 2015		FYE 2016		FYE 2017		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Research costs	515	54.5	218	41.0	166	92.2	160	100.0	112	93.3
Allowance for doubtful debts	430	45.5	275	51.8	14	7.8	-	-	8	6.7
Bad debts written off	-	-	38	7.2	-(1)	-	-(1)	-	-	-
<b>Total other expenses</b>	<b>945</b>	<b>100.0</b>	<b>531</b>	<b>100.0</b>	<b>180</b>	<b>100.0</b>	<b>160</b>	<b>100.00</b>	<b>120</b>	<b>100.0</b>

**Note:**

(1) Bad debts written off amounting to RM481 for FYE 2017, negligible in thousands.

**Commentary on Other Expenses****Comparison between FYE 2015 and FYE 2016**

Our other expenses decreased by 43.4% or RM0.41 million in FYE 2016 compared to FYE 2015 mainly due to a decrease in our research cost and allowance for doubtful debts during the FYE 2016.

The decrease in our research costs by RM0.30 million in FYE 2016 compared to FYE 2015 was mainly due to the completion of the first clinical trial of our Hepar-P Capsule in FYE 2015.

**11. FINANCIAL INFORMATION (cont'd)**

The lower allowance for doubtful debts of RM0.16 million in FYE 2016 was due to more efficient collections from customers by our sales employees. The Company's policy is to provide for specific allowance for doubtful debts for trade receivables with an outstanding balance of more than a year. The efficient collection by our sales employees from our customers resulted in lower total trade receivables with an outstanding balance of more than one year and eventually resulted in lesser allowance for doubtful debts provided for FYE 2016.

The bad debts written off in FYE 2016 was mainly in relation to the non-collectible amount outstanding from our House Brand customers, which were no longer recoverable. None of these customers are our NWPP partner.

**Comparison between FYE 2016 and FYE 2017**

There was a decrease in our other expenses by RM0.35 million or 65.9% in FYE 2017 compared to FYE 2016 mainly due to lower research costs and lower allowance in doubtful debts.

Our research costs for FYE 2017 was lower compared to FYE 2016 due to our continued focus on the development of existing R&D projects and lower costs incurred for research activities during FYE 2017. The lower allowance for doubtful debts for the FYE 2017 was due to efficient follow-up and collection from customers.

**Comparison between FPE 2016 and FPE 2017**

There was a decrease in our other expenses by RM0.04 million or 25.0% in FPE 2017 compared to FPE 2016 despite a marginal increase in our allowance for doubtful debts, mainly due to lower research costs

Our research costs for FPE 2017 was lower compared to FPE 2016 due to our continued focus on the development of existing R&D projects and lower costs incurred for research activities during FPE 2017. The lower allowance for doubtful debts for the FPE 2017 was due to efficient follow-up and collection from customers.

**11.3.8 Finance cost**

During the Financial Years Under Review and as at the LPD, we have no bank borrowings and hence did not incur any finance costs.

**11.3.9 Taxation**

The details of our income tax income / expense are as set out below:

	Audited			Unaudited	Audited
	FYE 2015	FYE 2016	FYE 2017	FPE 2016	FPE 2017
Tax (expense)/ income (RM'000)	(30)	(16)	100	205	(1,367)
Effective tax rate (%)	0.2	0.1	(0.7)	(3.0)	23.3
Statutory tax rate (%)	25.0	24.0	24.0	24.0	24.0

Our Group incurred a lower effective tax rate as compared to the statutory tax rate throughout the Financial Years Under Review as a result of tax incentives arising from the BioNexus-status granted to Nova Laboratories. We were granted 100.0% tax exemption on the statutory income on the qualifying activities for a period of 10 years from FYE 2008 up to FYE 2017. Upon expiry of the tax exemption, Nova Laboratories is entitled to a concessionary tax rate of 20.0% on the statutory income generated from its qualifying activities for a period of 10 years, i.e. from FYE 2018.

**11. FINANCIAL INFORMATION (cont'd)**

We had on 21 November 2017, made an application to Malaysian Bioeconomy Development for the implementation of the concessionary tax rate and as at the LPD, the application is under review by the Malaysian Bioeconomy Development.

For further information on the BioNexus-status, please refer to Section 6.19.1.

The tax income/expenses incurred in the Financial Years Under Review and FPE 2016 were mainly due to the recognition of deferred tax assets/liabilities arising from temporary difference between the capital allowance claimed by us over the accumulated depreciation for some of our PPE, allowance of doubtful debts and the write-down of inventories.

The tax expenses for the financial period ended 31 December 2017 were the tax charges on statutory tax rate of 24.0% following the expiry of our tax exemption in FYE 2017.

The deferred tax in FYE 2016 was lesser as compared to FYE 2015, which resulted in lesser tax expenses and effective tax rate in FYE 2016. As our tax exemption was only until FYE 2017, there was a decrease in deferred tax liabilities in FYE 2017 and FPE 2016 due to the recognition of deferred tax assets arising from allowance from doubtful debts and write down of inventories. As such, there was a deferred tax income recognised in FYE 2017 and FPE 2016.

**11.3.10 PBT, PBT Margin, Profit for the year and Net Profit Margin**

The breakdown of our PBT, PBT margin, Profit for the year and Net profit margin are as set out below:

	Audited			Unaudited	Audited
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FPE 2016 RM'000	FPE 2017 RM'000
Revenue	22,847	24,270	24,541	12,578	12,486
PBT	12,309	13,552	13,610	7,018	5,875
Tax	(30)	(16)	100	205	(1,367)
Profit for the year	12,279	13,536	13,710	7,223	4,508
PBT margin (%)	53.9	55.8	55.5	55.8	47.1
Net profit margin (%)	53.7	55.8	55.9	57.4	36.1

**Commentary on PBT and Profit for the year****Comparison between FYE 2015 and FYE 2016**

Our PBT increased by RM1.24 million or approximately 10.1% in FYE 2016 compared to FYE 2015 was mainly due to the increase in the revenue generated from our House Brand segment and the increase in our other income in FYE 2016. The increase in profit for the year was in line with the increase in our PBT.

Despite the decrease in the overall GP margin for the FYE 2016 as compared to FYE 2015, we recorded an increase in our PBT margin for the FYE 2016 mainly due to a decrease in our other expenses which comprised of lower research costs and lower allowance for doubtful doubts during the FYE 2016. This remains consistent with the increase in our net profit margin for the FYE 2016 after taking into consideration the lower tax expense for the year.

**Comparison between FYE 2016 and FYE 2017**

Our PBT increased marginally by RM0.06 million or approximately 0.4% in FYE 2017 compared to FYE 2016 mainly due to an increase in our other income during the FYE 2017.

## 11. FINANCIAL INFORMATION (cont'd)

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We recorded higher profit for the year as a result of deferred tax income of RM0.10 million arising from the recognition of deferred tax assets for the FYE 2017.

Our Group's PBT margin and net profit margin were 55.5% and 55.9%, respectively in FYE 2017. The increase in our net profit margin for FYE 2017 was mainly due to the deferred tax income arising from the recognition of deferred tax assets arising from temporary difference between the capital allowance claimed by us over the accumulated depreciation for some of our PPE, allowance of doubtful debts and the write-down of inventories.

### **Comparison between FPE 2016 and FPE 2017**

Our PBT and PBT margin decreased by 16.3% and 8.1% respectively in FPE 2017 compared to FPE 2016 mainly due to the decrease in our GP during the FPE 2017 and increase in our administrative expenses in the financial period.

Our Group's profit for the year and net profit margin decreased by 37.6% and 21.3% respectively in FPE 2017 compared to FPE 2016 mainly due to the statutory income tax charges in the financial period following the expiry of our tax exemption in FYE 2017.

## 11.4 SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL POSITION AND RESULTS OF OPERATIONS

Our financial position and results of operations have been, and will continue to be affected by a number of factors, including those set out below:

### **(i) Demand conditions for nutraceutical products**

Our growth is largely driven by amongst others, the following demand conditions which were extracted from the IMR Report by Protégé:

- Malaysia's ageing population, increasing prevalence of chronic lifestyle diseases, the availability of health-related information and the increasing financial burden arising from increasing health expenditure driving consumers' towards consumption of nutraceutical products as a form of preventive healthcare;
- More affluent population that has greater spending power for premium nutraceutical products in terms of variety of dietary supplements and functional food and beverages; and
- Growing demand for Halal-certified nutraceutical products.

However, the underlying factors that drive our growth, including the factors mentioned above, are influenced by economic conditions which are beyond our control. Please refer to Section 7 for further details of the demand conditions for our products.

### **(ii) Competitiveness**

Whilst the nutraceutical industry is projected to grow, we are able to compete effectively due to our competitive strengths, which include the following:

- Our ability to undertake in-house R&D activities which enables our Group to respond faster to the changing customer preferences and new market developments;
- We have our own production facility which enables us to control the entire production process with minimal unplanned interruption to produce high-quality, effective and safe products and the flexibility to care for any increase in orders for existing products;

## 11. FINANCIAL INFORMATION (cont'd)

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- We have a wide distribution network for House Brand products;
- We have a wide range of products developed to fulfill the needs of consumers of various demographic profiles and lifestyle such as children, women, health conscious individuals and the elderly; and
- Our experienced key management team.

Although we will continue to take measures to maintain our competitiveness, there is no assurance that our business, performance and results of operations will not be materially and adversely affected if we are unable to do so. Please refer to Section 6.4 for further details of our competitive strengths and Section 4 for further details on the risk factors.

### (iii) Tax incentives

Our subsidiary, Nova Laboratories was granted the BioNexus-status by Malaysian Bioeconomy Development in 2006, which allows Nova Laboratories to enjoy tax exemption benefits statutory income on the on the qualifying activities for a period of 10 years from FYE 2008 to FYE 2017. The tax exemption has expired on 30 June 2017. In this regard, the statutory income of Nova Laboratories is subject to the statutory tax rate of 24.0% from FYE 2018.

Further to the above, on 1 November 2017, Malaysian Bioeconomy Development has confirmed that upon expiry of the tax exemption, Nova Laboratories is entitled to a concessionary tax rate of 20.0% on the statutory income generated from its qualifying activities for a period of 10 years, i.e. from FYE 2018. We had on 21 November 2017, made an application to Malaysian Bioeconomy Development for the implementation of the concessionary tax rate.

In this regard, the statutory income of Nova Laboratories is subject to a concessionary tax rate of 20.0% from FYE 2018, which will have an impact on the profit of our Group.

### (iv) Impact from foreign exchange

Some of our raw materials and packaging materials purchased from overseas are denominated in RMB and USD while the sales with our OEM customers are mainly denominated in USD. For the Financial Years Under Review and FPE 2017, the proportions of our purchases of raw materials and packaging materials that were paid for in USD were 66.0%, 62.1%, 64.4% and 55.2% of our total purchases. Meanwhile, for the same financial periods, the proportions of our sales from our overseas customers that were paid for in USD were 9.3%, 12.9%, 5.4% and 3.9% of our total revenue, respectively. We maintain foreign currency bank accounts in USD with our financial institutions to facilitate and support our business operations.

As such, our Group's financial position and results of operations may be affected by foreign exchange fluctuations. Nonetheless, our Group has not experienced any material impact arising from the cost of raw materials and packaging materials in relation to the fluctuations of foreign exchange rates during the Financial Years Under Review. Further, our management closely monitors the movement of the USD to manage our foreign currency exchange risks.

### (v) The impact of the new GMP-compliant production facilities on future profit of the Group

Our net profit margin during the Financial Years Under Review were 53.7%, 55.8% and 55.9%, respectively. Our higher profit margins were mainly due to our lower depreciation costs and 100% tax exemption during the Financial Years Under Review. In FPE 2017, our net profit margin was 36.1% mainly due to higher administrative expenses and taxation, following the expiry of our tax exemption in FYE 2017.

**11. FINANCIAL INFORMATION (cont'd)**

However, we expect our future profit and profit margins to be adversely affected with the construction of our new GMP-compliant production facility due to increased operating expenses, increased depreciation costs with the new machinery and time taken to commence operations in the new production facility.

**(vi) The impact of increase in raw material and labour costs on future profit of the Group**

Our overall GP and GP margin decreased in FPE 2017 by 7.0% and 4.5% respectively as compared to FPE 2016. The decrease in both GP and GP margin is mainly due to higher cost of sales which consists of higher cost of direct labour and raw materials for our House Brand and OEM segments.

As such, given that raw materials and direct labour are a major component of our costs of sales, any further increase in the costs will adversely affect our future profit and profit margins.

**(vii) Political, economic and regulatory policies relating to the health supplements industry**

Risks relating to political, economic and regulatory policies, which are beyond our control, may materially affect our business and financial performance are set out in Section 4.1.16. For the Financial Years Under Review, our results were not materially affected by any changes relating to political, economic and regulatory policies.

Whilst we practice prudent financial management and efficient operating procedures, there can be no assurance that any adverse economic, political and regulatory developments locally or even globally will not materially affect our operations, financial performance and future prospects.

**11.5 CAPITALISATION AND INDEBTNESS**

The table below summarises our capitalisation and indebtedness:

	<b>Unaudited as at 30 April 2018</b>	<b>After IPO and use of proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash and cash equivalents</b>	4,853	13,222
<b>Total indebtedness</b>	-	-
<b>Capitalisation:</b>		
Total capitalisation (Shareholders' equity)	36,404	174,759
<b>Total capitalisation and indebtedness</b>	<b>36,404</b>	<b>174,759</b>
Gearing ratio (times)	-	-

**11.6 LIQUIDITY AND CAPITAL RESOURCES****11.6.1 Working Capital**

Our primary sources of funds are mainly through a combination of internally generated funds and shareholders' equity. We may raise additional capital funds through debt or equity offerings in the future to part finance our expansion plans or to meet our financing requirements should the need arise.



**11. FINANCIAL INFORMATION (cont'd)**

Based on our statement of financial position as at 30 June 2017, our current assets and current liabilities stood at RM18.16 million and RM3.68 million respectively, which translated to a current ratio of 4.94 times. As at the LPD, we have cash and bank balances of RM3.24 million.

Having made all reasonable enquiries, our Board is of the opinion that, after taking into consideration the cash and cash equivalents of our Group, expected funds to be generated from operating activities, the internally generated funds to our Group, and the proceeds expected to be raised from our IPO, as well as our capacity to obtain further financing given our low gearing ratio, we will have sufficient funds for a period of 12 months from the date of the Prospectus to meet our working capital requirements.

**11.6.2 Cash Flows**

The table below sets out a summary of our statement of cash flows for the financial years under review:

	<b>Audited</b>			<b>Unaudited</b>	<b>Audited</b>
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FPE 2016</b>	<b>FPE 2017</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net cash from operating activities	12,170	15,060	11,136	993	4,355
Net cash used in investing activities	(716)	(31)	(879)	(208)	(626)
Net cash used in financing activities	(12,762)	(12,099)	(12,865)	(1,218)	(4,300)
Net increase/(decrease) in cash and bank balances	(1,308)	2,930	(2,608)	(433)	(571)
Cash and bank balances at beginning of the financial year	3,044	1,736	4,666	4,666	2,058
Cash and bank balances at end of the financial year	1,736	4,666	2,058	4,232	1,487

**FYE 2015****Net cash from operating activities**

For FYE 2015, our operating cash flow before working capital changes was approximately RM13.11 million. After adjusting for the following key items, our net operating cash flows was approximately RM12.17 million:

- increase in inventories of RM1.15 million mainly due to increase in purchases of raw materials to cater for our management's anticipation of an increase in our Group's sales;
- increase in receivables of RM0.76 million despite an increase in collection during the financial year mainly due to an increase in sales from our OEM segment in the last quarter of FYE 2015. These sales were however not due for collection as at FYE 2015;
- increase in payables of RM0.97 million despite an increase in payment during the financial year mainly due to increase in trade purchases in the final quarter of FYE 2015, which was not due for payment as at FYE 2015. The increase in purchase was due the management's forecast of an increase in sales in FYE 2016; and
- an interest income of RM2,601 and income tax paid of RM4,138 during the financial year.

**Net cash used in investing activities**

For the FYE 2015, net cash used in our investing activities of RM0.72 million mainly due to:

- acquisition of plant and machineries used in our production amounting to RM0.99 million;

## 11. FINANCIAL INFORMATION (cont'd)

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- (ii) Government grant received of RM1.04 million; and
- (iii) development expenditure amounting to RM0.74 million mainly includes expenditure incurred for clinical and pre-clinical trial for three of our herbal supplement products.

### **Net cash from financing activities**

For the FYE 2015, net cash used in our financing activities of RM12.76 million was mainly in relation to the payment of dividends to existing shareholders of Nova Laboratories.

### **FYE 2016**

### **Net cash from operating activities**

For FYE 2016, our operating cash flow before working capital changes was approximately RM14.49 million. After adjusting for the following key items, our net operating cash flow was approximately RM15.06 million:

- increase in inventories of RM1.29 million due to higher purchases of raw materials in line with an anticipated increase in our Group's sales for FYE 2017; and
- decrease in receivables of RM1.94 million mainly due to increase in collections from trade receivables during the financial year as a result of efficient follow-up of the outstanding trade receivables by our sales team.

The increase in net cash from the operating activities by RM2.89 million as compared to FYE 2015 was mainly due to higher cash inflow from receivables in FYE 2016.

### **Net cash used in investing activities**

For the FYE 2016, net cash used in our investing activities mainly consists of the following:

- (i) acquisition of plant and machineries used in our production amounting to RM0.12 million;
- (ii) Government grant received of RM0.28 million;
- (iii) development expenditure incurred amounting to RM0.49 million, including expenditure incurred for pre-clinical studies for three of our herbal supplement products; and
- (iv) repayment from related parties amounting to RM0.30 million in the financial year.

The decrease in the net cash used in investing activities of RM0.69 million as compared to the net cash used in FYE 2015 was mainly due to lower cash outflow for the purchase of PPE and development expenditure in FYE 2016.

### **Net cash from financing activities**

For the FYE 2016, net cash used in our financing activities of RM12.10 million mainly due to payment of dividends to existing shareholders of Nova Laboratories amounting to RM12.07 million.

The decrease in the net cash used in financing activities in FYE 2016 as compared to FYE 2015 of RM0.66 million was due to lower dividend payment to our existing shareholders in FYE 2016.

## 11. FINANCIAL INFORMATION (cont'd)

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### **FYE 2017**

#### **Net cash from operating activities**

For FYE 2017, our operating cash flow before working capital changes was approximately RM13.78 million. After adjusting for the following key items, our net operating cash flow was approximately RM11.14 million:

- increase in receivables of RM0.76 million mainly due to an increase in sales from our House Brand products in the last quarter of FYE 2017 and lower collection of our receivables as they were not due for payment during the financial year;
- decrease in payables of RM0.89 million as the Company had lower trade purchases in FYE 2017 and therefore lower repayment in the financial year. The Company had also settled the trade balances based on the credit term granted for purchases in FYE 2017; and
- income tax paid of RM1.0 million. The tax paid of RM1.0 million is however, refundable pursuant to our BioNexus status which allows us tax exemption benefits for our statutory income on the qualifying activities up to FYE 2017.

The decrease in the net cash from the operating activities by RM3.92 million as compared to FYE 2016 was mainly due to lower collection of receivables during the financial year

#### **Net cash used in investing activities**

For FYE 2017, net cash of RM0.88 million used in our investing activities mainly comprise of:

- (i) RM0.35 million for acquisition of motor vehicles and plant and machineries used in our production, and capital work in progress in relation to the construction of our new GMP-compliant production facility; and
- (ii) RM0.53 million for our development expenditure mainly consisting of our R&D team's salaries for the in-house development project of new products.

The increase in the net cash used in investing activities of RM0.85 million as compared to the net cash used in FYE 2016 was mainly due to higher cash outflow for the purchase of PPE. There was also no cash inflow from government grant and payment from related parties compared to FYE 2016.

#### **Net cash from financing activities**

For the FYE 2017, net cash used in our financing activities was due to payment of dividends to existing shareholders of Nova Laboratories amounting to RM12.86 million which resulted in an increase of net cash used in financing activities of RM0.77 million in FYE 2017.

### **FPE 2017**

#### **Net cash from operating activities**

For FPE 2017, our operating cash flow before working capital changes was approximately RM6.33 million. After adjusting for the following key items, our net operating cash flow was approximately RM4.36 million:

- increase in receivables of RM0.90 million mainly due to an increase in sales from our House Brand products in the last quarter of FYE 2017 resulting in an increase in receivables that were not due for payment during the financial period; and

## 11. FINANCIAL INFORMATION (cont'd)

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- income tax paid of RM1.15 million. The tax paid of RM1.15 million will offset against the final tax payable for FYE 2018.

The increase in the net cash from the operating activities by RM3.39 million as compared to FPE 2016 was mainly due to higher collection of receivables during the financial period.

### Net cash used in investing activities

For FPE 2017, net cash of RM0.63 million used in our investing activities mainly comprise of:

- RM0.72 million for acquisition of plant and machineries used in our production, office equipment and capital work in progress in relation to the construction of our new GMP-compliant production facility;
- RM0.21 million for our development expenditure mainly consisting of our R&D team's salaries for the in-house development project of new products; and
- RM0.30 million government grant received in relation to the NKEA Project.

The increase in the net cash used in investing activities of RM0.42 million as compared to the net cash used in FPE 2016 was mainly due to higher cash outflow for the purchase of PPE and the cash inflow from government grant compared to FPE 2016.

### Net cash from financing activities

For FPE 2017, net cash used in our financing activities was mainly for the payment of dividends to existing shareholders of Nova Laboratories amounting to RM4.30 million which resulted in an increase of net cash used in financing activities in FPE 2017.

#### 11.6.3 Borrowings

As at FPE 2017, our Group does not have any borrowings.

#### 11.6.4 Financial Instruments

As at FPE 2017 and the LPD, we do not have any financial instruments for hedging purposes.

#### 11.6.5 Treasury Policies and Objectives

We have been financing our operations through cash generated from our operations, and shareholders' equity. The normal credit terms granted by our trade suppliers is disclosed in Note 13 of the Accountants' Report in Section 12.

Our sales are mainly denominated in RM while our purchases are mainly denominated in RMB and USD. However, most of our overseas customers make payments in USD, and the USD funds received are normally maintained in foreign currency accounts and used to settle the purchases from our foreign suppliers. We do not have any hedging policy nor have we entered into any forward foreign currency exchange contract.

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**11. FINANCIAL INFORMATION (cont'd)****11.6.6 Material Capital Expenditures and Divestitures**

Save as disclosed below, we have not incurred any other material capital expenditures and divestitures for FYE 2015, FYE 2016 and FYE 2017 and up to the LPD:

	Audited				From 1 January 2018 up to the LPD RM'000
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FPE 2017 RM'000	
Capital work in progress <sup>(1)</sup>	-	-	91	608	1,686
Freehold land <sup>(2)</sup>	-	-	-	8,594	-
Furniture and fittings <sup>(3)</sup>	21	-	2	3	-
Office equipment <sup>(4)</sup>	23	20	30	12	15
Motor vehicles <sup>(5)</sup>	-	-	104	-	-
Plant and machineries <sup>(6)</sup>	920	104	120	66	-
Renovations <sup>(7)</sup>	23	-	-	-	-
<b>Total material capital expenditures</b>	<b>987</b>	<b>124</b>	<b>347</b>	<b>9,283</b>	<b>1,701</b>

**Notes:**

- (1) Capital work in progress was in relation to fee paid to consultant for drawings, application for the construction, piling works for the new GMP-compliant production facility and purchase of construction materials. Please refer to Section 6.23.1(i) for further information on the new GMP-compliant production facility.
- (2) The material capital expenditure incurred was for the purchase of land pursuant to the sale and purchase agreement entered into between Nova Laboratories and Tan Sok Mooi dated 13 September 2017.
- (3) The material capital expenditure incurred was for the purchase of furniture and fittings including racks, chairs, tables, cabinets and cupboards for our office.
- (4) The material capital expenditure incurred was for the purchase of office equipment including air-conditioner, computers, security protection equipment, telecommunication equipment, copier machine, fan, vacuum cleaner etc.
- (5) The material capital expenditure incurred for purchase of a motor vehicle used for our business operations.
- (6) The material capital expenditure incurred were in relation to the purchase of plant and machineries for our day-to-day operations and production including granulating drier, cartoning machine, rotary filling machine and mixers.
- (7) The material capital expenditure incurred was for the renovation of our office in FYE 2015.

The material capital expenditures were mainly financed via a combination of internally generated funds and shareholders' equity.

Our capital expenditures in the coming years will be mainly in relation to the construction of the new GMP-compliant production facility. This capital expenditure will be financed via our Listing proceeds and internally generated funds, the details of which are set out in Section 3.7.

There are no material divestitures currently in progress within or outside Malaysia. For material capital commitments, please refer to Section 11.6.7.

**11. FINANCIAL INFORMATION (cont'd)****11.6.7 Capital Commitments**

Save for below, we do not have any capital commitments, which upon becoming enforceable may have a material and adverse impact on our financial position.

	<u>RM'000</u>
<b>Approved and contracted for:</b>	
-Purchase of property, plant and equipment	120
<b>Approved and not contracted for:</b>	
- Purchase of property, plant and equipment	15,800

**11.6.8 Material Litigation/Arbitration and Contingent Liabilities****(i) Material litigation/arbitration**

As at the LPD, neither we nor our subsidiary company are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and our Board is not aware of any proceeding pending or threatened or any fact likely to give rise to any proceeding which may have a material effect on our financial position or business.

**(ii) Contingent liabilities**

As at the LPD, we do not have any material contingent liability, which upon has become enforceable or is likely to become enforceable, which in the opinion of our Board will or may substantially affect the ability of our Group to meet our obligation as and when they fall due.

**11.7 KEY FINANCIAL RATIOS**

The key financial ratios of our Group based on the audited combined financial statement for the FYE 2015, FYE 2016 and FYE 2017 have been prepared for illustrative purposes only and on the assumption that the current structure of our Group has been in existence throughout the relevant financial years under review.

	<u>FYE 2015</u>	<u>Audited FYE 2016</u>	<u>FYE 2017</u>	<u>Audited FPE 2017</u>
Trade receivables turnover period (days) <sup>(1)</sup>	161	117	123	125 <sup>(6)</sup>
Trade payables turnover period (days) <sup>(2)</sup>	66	44	19	24 <sup>(7)</sup>
Inventories turnover period (days) <sup>(3)</sup>	295	329	310	255 <sup>(8)</sup>
Current ratio (times) <sup>(4)</sup>	7.2	3.5	4.9	10.9
Gearing ratio (times) <sup>(5)</sup>	-	-	-	-

**Notes:**

- (1) Calculated based on:  $\frac{\text{Closing trade receivables} \times 365 \text{ days}}{\text{Total revenue}}$
- (2) Calculated based on:  $\frac{\text{Closing trade payables} \times 365 \text{ days}}{\text{Total cost of sales}}$
- (3) Calculated based on:  $\frac{\text{Closing inventory} \times 365 \text{ days}}{\text{Cost of sales}}$
- (4) Calculated based on current assets over current liabilities.
- (5) Calculated based on total interest-bearing borrowings over total equity.

**11. FINANCIAL INFORMATION (cont'd)**

- (6) Calculated based on:  $\frac{\text{Closing trade receivables}}{\text{Total revenue}} \times 182 \text{ days}$
- (7) Calculated based on:  $\frac{\text{Closing trade payables}}{\text{Total cost of sales}} \times 182 \text{ days}$
- (8) Calculated based on:  $\frac{\text{Closing inventory}}{\text{Cost of sales}} \times 182 \text{ days}$

**Trade Receivables**

The normal credit period granted to third party retail pharmacies under the NWPP is 60 days, while the normal credit period granted to our other customers including OEM customers ranges from 30 to 60 days. When granting such credit terms, we assess each customer on a case to case basis after taking into consideration, the reputation by conducting thorough evaluation of the customer such as surveying their outlets, the prospects of the area of their operations and their credibility through the interview with the people in the market.

The Group's policy on allowance for doubtful debts is to provide for receivables balances outstanding for more than one year. Our Board is of the opinion that the Group's policy on allowance for doubtful debts is sufficient.

The ageing analysis of our trade receivables as at 31 December 2017 is as follows:

	Within credit period		Exceeding credit period				Total
	0-30 days	31-60 days	61-90 days	91-120 days	121-365 days	>1 year	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	5,067	1,547	1,359	383	230	179	8,765
Less: Allowance for doubtful debt	-	-	-	-	-	(176)	(176)
Net trade receivables	5,067	1,547	1,359	383	230	3	8,589
Percentage of total trade receivables (%)	59.0	18.0	15.8	4.5	2.7	-	100.0
Subsequent collection as at the LPD	4,157	1,435	1,112	383	134	-	7,221
Outstanding balance as at the LPD	910	112	247	-	96	3	1,368
Percentage of outstanding balance as at the LPD over the total trade receivable net subsequent collections as at the LPD (%)	66.6	8.2	18.0	0.1	6.9	0.2	-

For the FYE 2015 to the FYE 2017, our trade receivables' turnover period improved from 161 days to 123 days. As at 30 June 2017, 63.4% of our net trade receivables were within the normal credit period.

The trade receivables' turnover period for the financial period ended 31 December 2017 was 125 days as compared to 123 days for FYE 2017.

Our trade receivables as at 31 December 2017, net of allowance for doubtful debts were RM8.59 million. As at the LPD, we have collected RM7.22 million or 84.1% of the total trade receivables. For those amounts exceeding the 120 days credit period, we have collected RM0.13 million as at the LPD. We are in the process of collecting the remaining amount of RM1.37 million from our customers, which mainly comprise retail pharmacies and outlets. There is no trade receivable outstanding from our related parties as at the LPD.

As part of our credit control policy, we have taken steps to ascertain that proper action has been taken in relation to assessing the collectability of our trade receivables, and making provision for impairment for trade receivables that are in dispute, under legal action or where recoveries are considered to be doubtful.

**11. FINANCIAL INFORMATION (cont'd)**

Notwithstanding the above, our Board is of the opinion that the remaining amount of RM0.69 million are recoverable after taking into consideration these customers' payment track record as well as our experience with them.

Longer trade receivables turnover period for the Financial Years Under Review was mainly due to slow collection of receivables after delivery of sales. We have in the past allowed for extended period beyond the normal credit period granted with due consideration to our cash flow position, past collection of receivables from the relevant customers and relationship with the said customers.

As part of our credit control policy, we are presently making efforts to follow up closely with the customers for payment of outstanding debts. This resulted in the improvement of our total receivables turnover period from 161 days in FYE 2015 to 123 days in FYE 2017.

A further breakdown of our trade receivables turnover period by type of customers for the Financial Years Under Review and FPE 2017 are as follows:

	<u>FYE 2015</u> <u>Days</u>	<u>FYE 2016</u> <u>Days</u>	<u>FYE 2017</u> <u>Days</u>	<u>FPE 2017</u> <u>Days</u>
Retail pharmacies and outlets	111	77	125	119
Other customers <sup>(1)</sup>	207	162	119	135

**Note:**

(1) Mainly consists of OEM customers and other non-pharmacy customers.

The lower trade receivables turnover period for our pharmacies of 77 days in FYE 2016 as compared to FYE 2015 was mainly due to more efficient follow-up and collection from customers in FYE 2016.

The trade receivables turnover period for our other customers reduced from 207 days for FYE 2015 to 162 days for FYE 2016. The trade receivables exceeding the credit period is mainly includes amount owing from two OEM customers.

For FYE 2017, our total sales to the retail pharmacies and outlets increased to RM16.19 million from RM12.84 million in FYE 2016. The increase in sales in FYE 2017 also resulted in an increase in the trade receivable balance from retail pharmacies and outlets from RM2.73 million in FYE 2016 to RM5.55 million in FYE 2017. The higher sales of our House Brand products in FYE 2017 and slower collection resulted in a longer turnover period in FYE 2017.

However, the trade receivables turnover period for our other customers reduced from 162 days for FYE 2016 to 119 days for FYE 2017, following efficient collection from our OEM customers during the year.

The lower trade receivables turnover period for our retail pharmacies of 119 days in FPE 2017 was mainly due to efficient follow up with our retail pharmacies during the financial period.

The trade receivables turnover period for our other customers increased from 119 days for FYE 2017 to 135 days for the financial period ended 31 December 2017. The trade receivables exceeding the credit period is mainly due to amount owing from two OEM customers amounting to RM2.64 million. As at the LPD, RM2.46 million has been collected from the two OEM customers. We will continue to closely monitor the balance receivables from the two OEM customers to further improve the turnover period of our receivables.



**11. FINANCIAL INFORMATION (cont'd)****Trade Payables**

The normal credit period granted by our suppliers ranges from 30 to 60 days. Save for FYE 2015, our trade payables turnover period was within the credit period granted by our suppliers, during the Financial Years Under Review.

Our trade payables turnover period improved from 66 days in FYE 2015 to 19 days in FYE 2017. The turnover period for FPE 2016 and FPE 2017 was 35 days and 48 days respectively.

The higher trade payables turnover period of 66 days in FYE 2015 as compared to 44 days in FYE 2016 was mainly due to higher purchase of raw materials during the fourth quarter of FYE 2015. In the fourth quarter of FYE 2015, the Company recorded RM0.97 million in trade purchase which were not due for payment in the financial year. The purchases resulted in higher trade payables balance for FYE 2015 and lead to the higher trade payables turnover period for the year despite not being due for payment in the financial year. We have fully settled the trade payables outstanding for FYE 2015. For the FYE 2017, we recorded a lower trade payable turnover due to lower closing balance as at 30 June 2017 mainly due to lower purchase during the final quarter of FYE 2017.

For the financial period, our payables turnover period increased from 19 days as at FYE 2017 to 24 days for the financial period ended 31 December 2017.

The ageing analysis of our trade payables as at 31 December 2017 is as follows:

	<u>Within credit period</u>		<u>Exceeding credit period</u>	
	<u>0-30 days</u> <u>RM'000</u>	<u>31-60 days</u> <u>RM'000</u>	<u>&gt;60 days</u> <u>RM'000</u>	<u>Total</u> <u>RM'000</u>
Trade payables	208	41	275	524
Percentage of total trade payables (%)	39.7	7.8	52.5	100.0
Subsequent payment as at the LPD	208	41	63	312
Outstanding balance as at the LPD	-	-	212	212
Percentage of total trade payables (%)	-	-	100.0	100.0

Our trade payables as at 31 December 2017 was RM0.52 million, of which RM0.31 million or 59.5% has been settled as at the LPD.

There are outstanding trade payables amounting to RM0.21 million, which exceed the 60 days credit period. The outstanding trade payables are mainly amount owing to two suppliers in China and a supplier in Malaysia for the purchase of raw materials. We are in the midst of liaising with the suppliers for settlement of the outstanding trade payables.

As at the LPD, there are no actions, legal or otherwise, that have been taken against us by our suppliers.

Our Board is of the view that we have sufficient funds to meet our working capital requirements, after taking into consideration the cash and cash equivalents of our Group, and expected funds to be generated from operating activities.

**Inventories**

Our inventories consists of raw materials, work-in-progress, finished goods and goods in transit. It is our Group's practice to maintain a sustainable level of inventories to support our business operations and to reduce the lead time in delivery of our products to the customers.

Our average inventory holding period is approximately 361 days during the Financial Years Under Review and FPE 2017.

**11. FINANCIAL INFORMATION (cont'd)**

	Audited			Audited
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FPE 2017 RM'000
Raw materials	2,423	3,965	4,228	4,358
Work-in-progress	307	422	150	268
Finished goods	2,128	1,460	1,319	789
Goods in transit	65	83	221	158
Inventories turnover period (days)	295	329	310	255

The increase in the inventory turnover period from 295 days in FYE 2015 to 329 days in the FYE 2016 was due to the increase in our raw materials, work-in-progress and goods in transit inventories during the FYE 2016. For the FYE 2017, the inventory turnover period decreased to 310 days due to lower closing inventories as at the FYE 2017 mainly due to higher sales of products during the year.

The decrease in the inventory turnover period from 310 days in FYE 2017 to 255 days for the financial period ended 31 December 2017 was mainly due to the lower finished goods inventories in FPE 2017. The lower finished goods inventories were due to the higher sales of our products in the end of FPE 2017.

The significant increase in raw materials inventory is in line with the increasing sales trend of our House Brand products during the Financial Years Under Review. Our sales had increased since FYE 2015 mainly due to the increase in orders for our functional food products sold under our Activmax brand and the introduction of new range of products under the Activmax brand focusing on weight control and breakfast and dietary supplements which also contributed to the higher volume of sales of House Brand products. Subsequently, the raw materials stock has also increased over the years as the Company has to maintain a certain level of raw materials to meet the production requirement. The shelf-life of the raw materials are two to five years and the shelf-life for finished goods are three years.

There were no inventories written-off for the Financial Years Under Review. However, during FPE 2017, we had inventories written-off amounting to RM0.32 million. Our Board is of the view that no impairment for inventories is required for the Financial Years Under Review.

These higher closing inventories in raw materials and goods in transit were to protect our Group from the fluctuations of foreign exchange and also to obtain bulk purchase price discount.

**Current Ratio**

	Audited			Audited
	FYE 2015	FYE 2016	FYE 2017	FPE 2017
Current assets (RM'000)	17,284	18,756	18,164	18,149
Current liabilities (RM'000) <sup>(1)</sup>	2,387	5,351	3,680	1,669
Current ratio (times)	7.2	3.5	4.9	10.9

**Note:**

(1) Our current liabilities mainly comprise of trade payables, other payables and dividend payables.

As at 30 June 2015, our Group's current ratio was 7.2 times. In FYE 2016, the current ratio decreased to 3.5 times as at FYE 2016 mainly due an increase in other payables as a result of dividend declared in FYE 2016 but paid in FYE 2017 amounting to RM3.09 million.

## 11. FINANCIAL INFORMATION (cont'd)

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For the FYE 2017, our current ratio increased to 4.9 times mainly due to the lower dividend payable in FYE 2017 of RM2.30 million.

Our current ratio increased from 4.9 times in FYE 2017 to 10.9 times for the financial period ended 31 December 2017, mainly due to settlement of dividend payable of RM2.30 million. The dividend payable was in relation to the final dividend declared in respect of FYE 2017.

### Gearing Ratio

Our Group has no bank borrowings during the Financial Years Under Review and as at the LPD.

### Order Book

Order book is not relevant to our business operation as we do not enter into any long-term agreements with our customers. Our business is based on confirmed purchase orders from our customers.

## 11.8 TREND INFORMATION

The following trends and factors are likely to have a material effect on the financial conditions and operations of our corporation:

- (i) The majority of our revenue is derived from the House Brand segment which contributed approximately 56.6%, 58.5%, 71.6% and 68.3% of our total revenue during the Financial Years Under Review and FPE 2017, respectively. The revenue from the House Brands is mainly derived from dietary supplements and functional foods. As at the LPD, we have 49 dietary supplements, 11 functional food and 28 skincare products. We expect the House Brand segment to continue contributing significantly to our revenue in the future.
- (ii) Our GP margin decreased from 73.3% in FYE 2015 to 68.1% in FPE 2017. The decrease of GP and GP margin in FPE 2017 was mainly due higher cost of raw materials and direct labour costs for our House Brand and OEM segments. Raw materials and packaging materials consumed in our production accounted for approximately 68.8%, 64.0%, 65.3% and 60.5% from FYE 2015 to FPE 2017, whilst direct labour cost accounted for 11.8%, 13.6%, 16.1% and 16.5% of our total cost of sales during the Financial Years Under Review and FPE 2017. We expect raw materials and labour costs to continue to increase as we expand our operations, which may adversely affect our GP and GP margins.
- (iii) Our net profit margin during the Financial Years Under Review were 53.7%, 55.8% and 55.9%, respectively. In FPE 2017, our net profit margin was 36.1% mainly due to higher administrative expenses and taxation, following the expiry of our tax exemption in FYE 2017. Our future profit and profit margins are expected to be adversely affected with the construction of our new GMP-compliant production facility due to increased operating expenses, increased depreciation costs with the new machinery, increased tax expenses with the expiry of our tax exemption and time taken to commence operations in the new production facility.

As at the LPD, save as disclosed in Sections 4, 6, 7 and 11, to the best of our Directors' knowledge and belief, our operations have not been and are not expected to be affected by any of the following:

- (i) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material favorable or unfavorable impact on our financial performance, position and operations and capital resources;

**11. FINANCIAL INFORMATION** *(cont'd)*

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- (ii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group;
- (iii) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our liquidity and capital resources; and
- (iv) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position.

Information on our Group's business and financial prospects, significant trends in revenue is set out in Section 11.3 and Section 11.4. Discussion on the overview of the nutraceutical industry in Malaysia, their prospects and outlook are further elaborated in Section 7.

There are no significant changes that have occurred which may have a material effect on the financial position and results of our Group subsequent to FPE 2017.

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**11. FINANCIAL INFORMATION (cont'd)****11.9 DIVIDEND POLICY**

Our Board recommends distributing a dividend of 30.0% of our annual audited profit for FYE 2018 to shareholders of our Company.

Whilst it is our intention to adopt a dividend distribution policy to allow our shareholders to participate in our Group's profits, our ability to declare dividends or make other distributions to our shareholders in the future years will also depend upon other various factors such as:

- (i) our Group's cash flows requirement for operations and capital requirement including the solvency test as stipulated under Section 112 of the Act in relation to dividends;
- (ii) the availability of adequate distributable reserves; and
- (iii) general financial performance of the Group.

You should take note that this dividend recommendation merely describes our present intention and shall not constitute legally binding statements in respect of our Company's future dividends, which are subject to modification at our Board's discretion. As at the LPD, there are no dividend restrictions imposed on our Group.

The dividends declared and paid by Nova Laboratories in respect of the Financial Years Under Review and as at the LPD are as follows:

	<b>Dividend declared RM'000</b>	<b>Dividend paid RM'000</b>	<b>Profit for the year RM'000</b>	<b>Percentage of dividend declared over profit for the year %</b>
FYE 2015	12,763	12,763	12,279	103.9
FYE 2016	15,156	12,071	13,536	112.0
FYE 2017	12,080	12,866 <sup>(1)</sup>	13,710	88.1
As at the LPD	2,001 <sup>(2)</sup>	4,301 <sup>(2)(3)</sup>	-	-

**Notes:**

- (1) Includes RM3.09 million as payment of dividend declared in respect of FYE 2016.
- (2) The interim dividend declared and paid in respect of FYE 2018 amounting to RM2.0 million was subsequently returned by the shareholders of Nova Laboratories on 13 April 2018.
- (3) Includes payment of final dividend declared in respect of FYE 2017 amounting to RM2.30 million.

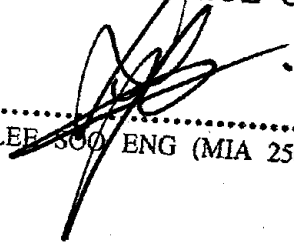
Dividend payments, capital gains and profits from dealing in the Shares will not be subject to Malaysian taxation (not applicable to entities including companies with trading of shares as their principle business activity). No withholding tax is imposed on the above transactions.

Potential investors are urged to consult their professional tax advisors if they are in any doubt as to the taxation implication of subscribing, holding or disposing of and dealing in our Shares.

12. ACCOUNTANTS' REPORT

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CERTIFIED TRUE COPY

  
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LEE SUI ENG (MIA 25082)

NOVA WELLNESS GROUP BERHAD  
Company No. 1196094-M  
(Incorporated in Malaysia)

ACCOUNTANTS' REPORT  
(HISTORICAL FINANCIAL INFORMATION)  
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015,  
30 JUNE 2016 AND 30 JUNE 2017 AND 6 MONTHS ENDED  
31 DECEMBER 2017

12. ACCOUNTANTS' REPORT (cont'd)



1 June 2018

The Board of Directors  
Nova Wellness Group Berhad  
2-1, Jalan Sri Hartamas 8  
Sri Hartamas  
50480 Kuala Lumpur

Dear Sirs

**REPORTING ACCOUNTANTS' OPINION ON THE HISTORICAL FINANCIAL INFORMATION CONTAINED IN THE ACCOUNTANTS' REPORT OF NOVA WELLNESS GROUP BERHAD**

***Opinion***

We have audited the accompanying financial information of Nova Wellness Group Berhad (the "Company") and its subsidiary (collectively, the "Group") which comprises the statements of financial position as at 30 June 2015, 30 June 2016, 30 June 2017 and 31 December 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the financial year ended 30 June 2015, 30 June 2016 and 30 June 2017 and 6 months ended 31 December 2017, and a summary of significant accounting policies and other explanatory information, as set out in pages 5 to 66.

This historical financial information has been prepared for inclusion in the prospectus of the Company in connection with the initial public offering and listing of and quotation for the entire enlarged issued and paid-up ordinary shares of the Company on the ACE Market of Bursa Malaysia Securities Berhad (the "Prospectus"). This report is required by the *Prospectus Guidelines - Equity* issued by the Securities Commission Malaysia and is given solely for the purpose of complying with the *Prospectus Guidelines - Equity* and for no other purpose.

In our opinion, the financial information gives a true and fair view of the financial position of the Group as at 30 June 2015, 30 June 2016, 30 June 2017 and 31 December 2017 and of their financial performance and their cash flows for each of the financial year ended 30 June 2015, 30 June 2016 and 30 June 2017 and 6 months ended 31 December 2017 in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

***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 Reporting Accountants' Responsibilities for the Audit of the Financial Information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## 12. ACCOUNTANTS' REPORT (cont'd)

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 M A Z A R S

Nova Wellness Group Berhad  
Accountants' Report

### ***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 Standards Ethics 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.

### ***Directors' Responsibility for the Financial Information***

The directors of the Company are responsible for the preparation of the financial information of the Group that gives a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error.

In preparing the financial information of the Group, the directors are responsible for assessing the Group's ability 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 to cease operations, or have no realistic alternative but to do so.

### ***Reporting Accountants' Responsibility for the Audit of Financial Information***

Our objectives are to obtain reasonable assurance about whether the financial information of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a 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 this financial information.

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 information of the Group, 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.



12. ACCOUNTANTS' REPORT (cont'd)

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 M A Z A R S

**Nova Wellness Group Berhad  
Accountants' Report**

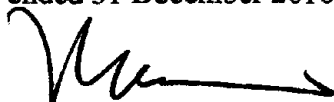
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial information of the Group 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 report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information of the Group, including the disclosures, and whether the financial information represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 information 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.

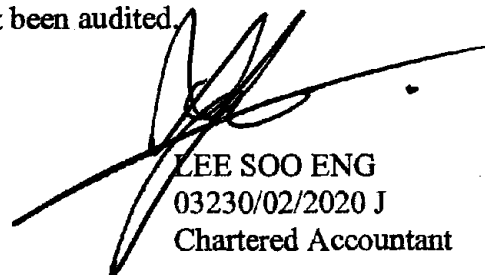
***Other Matters***

This report is made solely to the board of directors of the Company for inclusion in the Prospectus; and should not be used or relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

The 6 months comparative for the statement of comprehensive income, statement of changes in equity, statement of cash flows and their related explanatory information for 6 months ended 31 December 2016 have not been audited.



MAZARS PLT  
LLP0010622-LCA  
AF 001954  
Chartered Accountants



LEE SOO ENG  
03230/02/2020 J  
Chartered Accountant

Kuala Lumpur

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

**ABBREVIATIONS**

Unless the context otherwise requires, the following definitions shall apply throughout this report.

Act	Companies Act 2016
Company	Nova Wellness Group Berhad
EPF	Employees Provident Fund
Group	The Company and Nova Lab collectively
GST	Goods and Services Tax
IC	Interpretation Committee
IFRS	International Financial Reporting Standards
MFRS	Malaysian Financial Reporting Standards
MASB	Malaysian Accounting Standards Board
Nova Lab	Nova Laboratories Sdn Bhd
OEM	Original Equipment Manufacturer
PERS	Private Entity Reporting Standards
RM and sen	Ringgit Malaysia and sen respectively
USD	United States Dollars
RMB	China Renminbi

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## STATEMENTS OF FINANCIAL POSITION

	Note	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
<b>Non-current assets</b>					
Investment properties	4	246,715	244,341	241,968	240,781
Property, plant and equipment	5	4,127,108	3,745,080	3,663,737	12,730,862
Intangible assets	6	3,282,773	3,768,848	4,260,645	4,408,220
		<u>7,656,596</u>	<u>7,758,269</u>	<u>8,166,350</u>	<u>17,379,863</u>
<b>Current assets</b>					
Inventories	7	4,923,147	5,930,178	5,917,705	5,572,576
Trade and other receivables	8	10,619,326	8,155,902	9,185,767	10,335,374
Current tax assets		5,054	3,663	1,002,948	754,251
Cash and bank balances	9	1,736,692	4,666,253	2,057,966	1,486,893
		<u>17,284,219</u>	<u>18,755,996</u>	<u>18,164,386</u>	<u>18,149,094</u>
<b>TOTAL ASSETS</b>		<u>24,940,815</u>	<u>26,514,265</u>	<u>26,330,736</u>	<u>35,528,957</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	10	935,000	935,000	935,002	23,641,000
Retained earnings		18,422,865	16,802,579	18,431,998	20,939,101
Restructuring reserve		-	-	-	(14,225,998)
		<u>19,357,865</u>	<u>17,737,579</u>	<u>19,367,000</u>	<u>30,354,103</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	11	249,576	265,726	164,698	130,677
Government grants	12	2,946,710	3,160,131	3,119,174	3,375,096
		<u>3,196,286</u>	<u>3,425,857</u>	<u>3,283,872</u>	<u>3,505,773</u>
<b>Current liabilities</b>					
Trade and other payables	13	2,385,541	5,349,706	3,677,832	1,666,900
Amount owing to a director	14	1,123	1,123	2,032	2,181
		<u>2,386,664</u>	<u>5,350,829</u>	<u>3,679,864</u>	<u>1,669,081</u>
<b>Total liabilities</b>		<u>5,582,950</u>	<u>8,776,686</u>	<u>6,963,736</u>	<u>5,174,854</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>24,940,815</u>	<u>26,514,265</u>	<u>26,330,736</u>	<u>35,528,957</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## STATEMENTS OF COMPREHENSIVE INCOME

	Note	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Revenue	15	22,847,333	24,269,743	24,540,827	12,578,012	12,485,949
Cost of sales		(6,091,248)	(6,571,801)	(6,957,291)	(3,441,364)	(3,986,383)
Gross profit		16,756,085	17,697,942	17,583,536	9,136,648	8,499,566
Other income or gains		240,576	282,843	567,391	257,108	319,854
Administrative expenses		(1,390,330)	(1,676,932)	(2,622,859)	(1,211,836)	(1,854,658)
Selling and distribution expenses		(2,352,211)	(2,220,400)	(1,738,773)	(1,004,153)	(969,236)
Other expenses		(944,605)	(531,239)	(179,651)	(160,118)	(120,142)
Profit before tax	16	12,309,515	13,552,214	13,609,644	7,017,649	5,875,384
Tax (expense)/income	17	(30,381)	(16,150)	99,975	205,690	(1,367,381)
Profit for the year, and total comprehensive income for the year		12,279,134	13,536,064	13,709,619	7,223,339	4,508,003
Earnings per share - basic and diluted (RM)	19	13.13	14.48	14.66	7.73	0.05

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## STATEMENTS OF CHANGES IN EQUITY

	<i>Note</i>	Share capital RM	Retained earnings RM	Restructuring reserve RM	Total RM
At 1 July 2014		935,000	18,906,481	-	19,841,481
Profit for the year, and total comprehensive income for the year		-	12,279,134	-	12,279,134
Dividends	18	-	(12,762,750)	-	(12,762,750)
At 30 June 2015		935,000	18,422,865	-	19,357,865
Profit for the year, and total comprehensive income for the year		-	13,536,064	-	13,536,064
Dividends	18	-	(15,156,350)	-	(15,156,350)
At 30 June 2016		935,000	16,802,579	-	17,737,579
Profit for the year, and total comprehensive income for the year		-	13,709,619	-	13,709,619
Dividends	18	-	(12,080,200)	-	(12,080,200)
Issuance of shares		2	-	-	2
At 30 June 2017		935,002	18,431,998	-	19,367,000
Profit for the period, and total comprehensive income for the period		-	4,508,003	-	4,508,003
Dividends	18	-	(2,000,900)	-	(2,000,900)
Issuance of shares pursuant to internal restructuring		22,705,998	-	(14,225,998)	8,480,000
At 31 December 2017		<u>23,641,000</u>	<u>20,939,101</u>	<u>(14,225,998)</u>	<u>30,354,103</u>
At 1 July 2016		935,000	16,802,579	-	17,737,579
Profit for the period, and total comprehensive income for the period		-	7,223,339	-	7,223,339
Dividends	18	-	(1,309,000)	-	(1,309,000)
Issuance of shares		2	-	-	2
At 31 December 2016 (Unaudited)		<u>935,002</u>	<u>22,716,918</u>	<u>-</u>	<u>23,651,920</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## STATEMENTS OF CASH FLOWS

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
<b>OPERATING ACTIVITIES</b>					
Profit before tax	12,309,515	13,552,214	13,609,644	7,017,649	5,875,384
Adjustments for:					
Allowance for doubtful debts	430,341	274,811	13,652	-	8,250
Allowance for doubtful debts no longer required	-	-	(327,532)	-	(201,123)
Write-down of inventories	-	283,796	47,389	23,051	428,843
Reversal of write-down of inventories	-	-	(35,685)	(5,880)	(2,159)
Bad debts written off	-	37,579	481	481	-
Depreciation	460,177	430,384	420,335	207,710	217,652
Amortisation of intangible assets	-	-	37,733	18,866	59,657
Amortisation of deferred income	(29,525)	(65,087)	(40,957)	(16,836)	(45,878)
Interest income	(2,601)	(255)	(5,278)	(187)	(9,207)
Property, plant and equipment written off	-	78,236	480	-	-
Unrealised (gain)/loss on foreign exchange	(59,042)	(100,668)	4,416	(29,956)	(4,391)
Operating profit before working capital changes	13,108,865	14,491,010	13,724,678	7,214,898	6,327,028
Changes in inventories	(1,147,458)	(1,290,827)	769	171,106	(81,555)
Changes in receivables	(761,102)	1,941,373	(701,515)	(1,427,778)	(898,872)
Changes in payables	970,951	(82,970)	(893,027)	(3,964,808)	151,899
Cash generated from operations	12,171,256	15,058,586	12,130,905	1,993,418	5,498,500
Interest received	2,601	255	5,278	187	9,207
Tax (paid)/refund	(4,138)	1,391	(1,000,337)	(1,000,337)	(1,152,705)
Net cash generated from operating activities	12,169,719	15,060,232	11,135,846	993,268	4,355,002
<b>INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment (Note (a))	(986,673)	(124,218)	(346,967)	(72,106)	(719,792)
Development expenditure	(742,043)	(486,075)	(529,530)	(234,268)	(207,232)
Government grants received	1,037,139	278,508	-	-	301,800
(Advances to)/ Repayment from related parties	(24,245)	300,194	(2,947)	98,187	-
Advances to a director	-	(730,072)	-	-	-
Repayment from a director	-	730,072	-	-	-
Net cash used in investing activities	(715,822)	(31,591)	(879,444)	(208,187)	(625,224)

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
<b>FINANCING ACTIVITIES</b>					
Dividends paid	(12,762,750)	(12,070,850)	(12,865,600)	(1,309,000)	(4,301,000)
Advances from a director	1,123	-	909	90,056	149
Repayment to related party	-	(28,230)	-	-	-
Issue of shares	-	-	2	2	-
<b>Net cash used in financing activities</b>	<b>(12,761,627)</b>	<b>(12,099,080)</b>	<b>(12,864,689)</b>	<b>(1,218,942)</b>	<b>(4,300,851)</b>
<b>NET CHANGES IN CASH AND BANK BALANCES</b>	<b>(1,307,730)</b>	<b>2,929,561</b>	<b>(2,608,287)</b>	<b>(433,861)</b>	<b>(571,073)</b>
<b>CASH AND BANK BALANCES AT THE BEGINNING OF YEAR/PERIOD</b>	<b>3,044,422</b>	<b>1,736,692</b>	<b>4,666,253</b>	<b>4,666,253</b>	<b>2,057,966</b>
<b>CASH AND BANK BALANCES AT END OF YEAR/PERIOD</b>	<b>1,736,692</b>	<b>4,666,253</b>	<b>2,057,966</b>	<b>4,232,392</b>	<b>1,486,893</b>

Note (a)

**PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

The Group made the following cash payment to purchase property, plant and equipment:

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Purchase of property, plant and equipment	986,673	124,218	346,967	72,106	9,283,590
Amount settled by shares issued	-	-	-	-	(8,480,000)
Amount payable	-	-	-	-	(83,798)
<b>Cash payment</b>	<b>986,673</b>	<b>124,218</b>	<b>346,967</b>	<b>72,106</b>	<b>719,792</b>

12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

**NOTES TO THE FINANCIAL INFORMATION**

**1. GENERAL INFORMATION**

The Company was incorporated in Malaysia under the Act as a private limited company on 27 July 2016. The Company was converted to a public limited company on 31 October 2017, and changed its name to Nova Wellness Group Berhad. The Company is domiciled in Malaysia.

The Company is an investment holding company.

The registered office and principal place of business of the Company is located at 2-1, Jalan Sri Hartamas 8, Sri Hartamas, 50480 Kuala Lumpur and Lot 708, Nova Avenue, 4th Mile, 43950 Sungai Pelek, Sepang, Selangor respectively.

***The Internal Restructuring***

For the purpose of the initial public offering of new ordinary shares in the Company and the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad, the Group was formed via an internal restructuring exercise.

On 24 October 2017, the Company entered into a share sale agreement with the then shareholders of Nova Lab for the acquisition of the entire issued share capital of Nova Lab for a consideration of RM23,640,998 satisfied by way of issuance of 236,409,980 new ordinary shares in the Company at an issue price of RM0.10 per share. Thereafter, Nova Lab becomes the wholly-owned subsidiary of the Company.

***The Subsidiary***

Nova Lab was incorporated in Malaysia under the Act as a private limited company on 17 March 1989 and domiciled in Malaysia.

The issued and fully paid-up share capital of Nova Lab as at 30 June 2015, 2016 and 2017 was RM935,000 respectively, comprising of 935,000 ordinary shares respectively; and as at 31 December 2017 was RM9,415,000 comprising of 1,462,956 ordinary shares.

Nova Lab is principally engaged in development, production and sales of nutraceutical and skincare products and OEM development and production of nutraceutical products.



12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

**2. BASIS OF PREPARATION**

The financial statements of the Group for the financial years ended 30 June 2015, 2016 and 2017 and 6 months ended 31 December 2016 and 2017 have been prepared in accordance with MFRS and IFRS.

The financial statements of the Group have been prepared on the historical cost basis, unless stated otherwise in the accounting policies below.

The financial statements of the Group are presented in RM, which is also the functional currency of the Company.

The Company and Nova Lab are under common effective control of the same controlling parties throughout the periods presented in this report. Throughout the three financial years ended 30 June 2017, each of the Company and Nova Lab was owned by the controlling parties directly. During the 6 months ended 31 December 2017, as set out in note 1 above, Nova Lab became a wholly-owned subsidiary of the Company.

***Combined Financial Information***

The entities or businesses under common control are accounted for in accordance with merger accounting. In applying merger accounting, the combined financial information of a reporting entity incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The principles of merger accounting are set out in note 3 below.

Accordingly, the historical financial information of the Company and Nova Lab for the three financial years ended 30 June 2017 had been combined using merger accounting, comprises combined statements of financial position as at 30 June 2015, 2016 and 2017, and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years ended 30 June 2015, 2016 and 2017 and 6 months ended 31 December 2016, and a summary of significant accounting policies and other explanatory information.

***Consolidated Financial Information***

The Company prepares consolidated financial statements upon acquisition of Nova Lab. Accordingly, the historical financial information of the Group for 6 months ended 31 December 2017 comprises consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 6 months ended 31 December 2017, and a summary of significant accounting policies and other explanatory information.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 3. SIGNIFICANT ACCOUNTING POLICIES

## (a) Application of new or revised standards

The Group has applied a number of new standards and amendments that become effective mandatorily for the financial periods beginning on or after 1 July 2014.

The adoption of the new standards and amendments does not have any significant impact on the financial statements of the Group.

## (b) Standards issued that are not yet effective

The Group has not applied the following new standards, amendments and interpretations that have been issued by the MASB, which may be relevant to the Group's operations, but are not yet effective:

		<i>Effective Date</i>
Amendments to MFRS 1 and MFRS 128	Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 15	Clarifications to MFRS 15	1 January 2018
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4	Applying MFRS 9 <i>Financial Instruments</i> with MFRS 4 <i>Insurance Contracts</i>	1 January 2018
Amendments to MFRS 140	Transfers of Investment Property	1 January 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 16	Leases	1 January 2019
IC Interpretations 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures	1 January 2019

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

		<i>Effective Date</i>
Amendments to MFRS 3, MFRS 11, MFRS 112 and MFRS 123	Annual Improvements to MFRS Standards 2015 – 2017 Cycle	1 January 2019
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRSs	Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
MFRS 17	Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced by the MASB

The above new standards and amendments are not expected to have any significant financial impact on the Group upon their initial application except for MFRS 9 and MFRS 15 discussed as follows:

*MFRS 9 Financial Instruments*

MFRS 9 addresses the classification, recognition, derecognition, measurement and impairment of financial assets and financial liabilities, as well as general hedge accounting. It replaces MFRS 139. MFRS 9 requires financial assets to be classified into two measurement categories, i.e. at fair value and at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to changes in an entity's own credit risk is recorded in other comprehensive income, unless this creates an accounting mismatch. MFRS 9 contains a new impairment model based on expected losses (as oppose to 'incurred loss' model under MFRS 139), i.e. a loss event needs not occur before an impairment loss is recognised, which will result in earlier recognition of losses.

The Group is currently assessing the impact to the financial statements upon adopting MFRS 9 and intends to adopt MFRS 9 on the mandatory effective date.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

*MFRS 15 Revenue from Contracts with Customers*

MFRS 15 introduces a new model for revenue recognition arising from contracts with customers. MFRS 15 will replace MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for the Construction of Real Estate*, IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 31 *Revenue - Barter Transactions Involving Advertising Services*. The application of MFRS 15 may result in difference in timing of revenue recognition as compared with current accounting policies.

The Group is currently assessing the impact to the financial statements upon adopting MFRS 15 and will adopt MFRS 15 on the mandatory effective date.

**(c) Significant accounting judgements and estimates**

The preparation of financial statements requires management to exercise judgement in the process of applying the accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities (if any) at the end of the reporting period and reported amounts of income and expenses during the financial year.

Although these estimates are based on management's best knowledge of current events and actions, historical experiences and various other factors, including expectations for future events that are believed to be reasonable under the circumstances, actual results may ultimately differ from these estimates.

The estimates and underlying assumptions are evaluated by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Critical judgement

The following are judgements made by the management in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements:

*Capitalisation of development expenditure*

The management monitors progress of research and development projects on an ongoing basis in accordance with the Group's research and development policy. Significant judgement is involved in distinguishing the research and the development phases of a project.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

The management capitalises qualifying expenditure incurred in development phase of a product development project in accordance with The Group's accounting policy. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. The capitalisation of development expenditure is based on the management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to The Group's research and development policy. In determining the amounts to be capitalised, the management estimates the future cash flows of the projects, useful lives of the development expenditure and discount rates. The carrying amount of capitalised development expenditure is disclosed in note 6.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources associated with estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are as follows:

*Impairment and depreciation of property, plant and equipment*

The management assesses whether there is any indication that property, plant and equipment are impaired as at each reporting date. Should there is an indication of impairment of an item of property, plant and equipment, the management estimates impairment by comparing the carrying amount of that asset with its recoverable amount. Recoverable amount is the higher of the fair value less cost to sell and the value in use of that asset. The value in use is the net present value of the estimated future cash flows derived from that asset, based on a discount rate determined by the management. The management estimates future cash flows based on the asset's or cash generating unit's operating results, approved business plans, industry trends as well as future economic conditions, changes in technology and other available information.

Property, plant and equipment are depreciated on a straight-line basis to write off the cost less their estimated residual values over their estimated useful lives. The management estimates the useful lives and residual values of these assets. Changes in the expected level of usage, physical wear and tear and technological developments could impact the economic useful lives and residual values of these assets, and therefore future depreciation would be revised. The carrying amount of property, plant and equipment is disclosed in note 5.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

*Impairment and amortisation of intangible assets*

The management assesses whether there is any indication that capitalised development expenditure is impaired as at each reporting date. Should there is an indication of impairment of development expenditure capitalised, the management estimates impairment by comparing the carrying amount of development expenditure capitalised with its recoverable amount. Recoverable amount is the higher of the fair value less cost to sell and the value in use of development expenditure capitalised. The value in use is the net present value of the estimated future cash flows derived from development expenditure capitalised, based on a discount rate determined by the management. The management estimates future cash flows based on the asset's or cash generating unit's operating results, approved business plans, industry trends as well as future economic conditions, changes in market conditions and other available information.

Capitalised development expenditure is amortised on a straight-line basis to write off the cost over its estimated useful lives. The management estimates the useful lives of development expenditure capitalised. Changes in the expected level of application, market conditions and technological developments could impact the economic useful lives of development expenditure capitalised, and therefore future amortisation would be revised. The carrying amount of capitalised development expenditure is disclosed in note 6.

*Allowance for doubtful debts*

The collectability of receivables is assessed by the management on an ongoing basis. An allowance for doubtful debts is made for any receivables considered to be doubtful of collection.

The allowance for doubtful debts is estimated based on a review of all outstanding amounts as at the reporting date. A considerable amount of judgement is required on assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each debtor. If the financial condition of a debtor were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required. The carrying amount of receivables is disclosed in note 8.

12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

*Measurement of inventories*

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, the management considers the evidence available at the time the estimates are made, including approved business plan, economic and market conditions. The Group's products are exposed to economic and technology changes which may cause selling prices to change rapidly. The actual net realisable value of inventories may be different from the management's estimation of net realisable values. The carrying amount of inventories is disclosed in note 7.

**(d) Basis of combination and consolidation**

The financial statements comprise the financial statements of the parent and of all its subsidiaries controlled by the parent made up to the end of the financial period.

The parent controls an entity if and only if the parent has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect the amount of the returns.

All subsidiaries are consolidated on the purchase method of accounting from the date of acquisition, being the date on which the parent obtains control, and continue to be consolidated until the date that such control ceases.

The combined/consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses are eliminated in full on combination/consolidation and the combined/consolidated financial statements reflect external transactions only.

The parent attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The parent also attributes total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

*Merger accounting for business combinations under common control*

The business combinations under common control are accounted for in accordance with merger accounting. In applying merger accounting, the financial information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

**(e) Investment properties**

Investment properties are properties held to earn rental income or for capital appreciation or both.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Investment properties are derecognised upon disposal or when no future economic benefits are expected from their disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

Freehold land is not depreciated. Buildings are depreciated on a straight-line basis to their residual values at a rate of 2% per annum over their estimated useful lives.

The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.



12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

**(f) Property, plant and equipment**

**(i) Recognition and measurement**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss when incurred.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss.

**(ii) Depreciation**

Freehold land and capital work-in-progress are not depreciated.

Depreciation is calculated to write off the depreciable amount of other property, plant and equipment on a straight-line basis over their estimated useful lives. Depreciable amount is determined after deducting the residual value from the cost.

The principal annual rates used for depreciation are:

Buildings	2%
Furniture and fittings	8% - 10%
Plant and machinery	8% - 12%
Motor vehicles	20%
Office equipment	10% - 12%
Renovation	10%

The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

**(g) Intangible assets**

*Research and development*

Research expenditure is recognised as an expense when it is incurred.

Costs incurred during the development phase of a project are capitalised as an intangible asset when all the following criteria are fulfilled:

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset and use or sell it;
- (iii) there is an ability to use or sell the intangible asset;
- (iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (v) adequate technical, financial and other resources, to complete the development and to use or sell the intangible asset, are available; and
- (vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Development expenditure initially recognised as an expense is not recognised as an asset in the subsequent period. Other development expenditure that do not meet all the above criteria are recognised as an expense when incurred.

The capitalised development expenditure is amortised on a straight-line basis over its useful life from the point at which the asset is available for sale or use.

The amortisation method, useful lives and residual value are reviewed, and adjusted if appropriate, at the end of each reporting period.

**(h) Impairment of non-financial assets**

Assets with indefinite useful life are tested for impairment annually. Assets with finite useful life are assessed at each reporting date to determine whether there is any indication of impairment.

12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or a cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Any reversal of an impairment loss as a result of a subsequent increase in recoverable amount should not exceed the carrying amount that would have been determined (net of amortisation or depreciation, if applicable) had no impairment loss been previously recognised for the asset.

**(i) Inventories**

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

Cost is determined on the weighted average basis and represents the invoiced value of goods purchased. The costs of work-in-progress and finished goods includes materials, labour and an appropriate proportion of manufacturing overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to complete.

**(j) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

*Initial recognition and measurement*

A financial instrument is recognised in the financial statements when, and only when, the entity becomes a party to the contractual provisions of the instrument.

12. ACCOUNTANTS' REPORT (*cont'd*)

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**Nova Wellness Group Berhad  
Accountants' Report**

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.

*Financial instrument categories and subsequent measurement*

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, held to maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. Management determines the classification of the financial assets upon initial recognition.

*Loans and receivables*

This category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents. They are included in current assets, except for those with maturities greater than 12 months which are classified as non-current assets.

The subsequent measurement of financial assets in this category is at amortised cost using the effective interest method, less allowance for impairment losses. Any gains or losses arising from derecognition or impairment, and through the amortisation process of loans and receivables are recognised in the profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities at amortised cost.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method.

*Derecognition of financial assets and liabilities*

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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received together with any cumulative gain or loss that has been recognised in other comprehensive income is recognised in the profit or loss.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

A financial liability or 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 and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**(k) Impairment of financial assets**

All financial assets, except for financial assets at fair value through profit or loss, 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. For an equity instrument, a significant or prolonged decline in the fair value below its cost is objective evidence of impairment.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against carrying amount of the financial asset.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

**(l) Equity instruments**

Equity instruments are initially recognised at cost and are not remeasured subsequently.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

(i) Ordinary shares

Ordinary shares are recorded at proceeds received.

(ii) Issuance expenses

Costs incurred directly attributable to the issuance of equity instruments are accounted for as a deduction from equity.

(iii) Dividends

Dividends to shareholders are recognised in equity in the period which they are declared.

**(m) Revenue recognition**

(i) Revenue from sale of goods is measured at the fair value of the consideration receivable and is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, net of returns, rebates and discounts.

(ii) Revenue from services is recognised upon services rendered.

(iii) Interest income is recognised using the effective interest method.

**(n) Government grant**

Government grants are recognised at their fair value when there is reasonable assurance that they will be received and all conditions attached will be met.

Government grants that compensate the entity for the cost of an asset are recognised as deferred income in the statement of financial position and are amortised to profit or loss on a systematic basis over the expected useful life of the relevant asset.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

12. ACCOUNTANTS' REPORT (cont'd)

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Nova Wellness Group Berhad  
Accountants' Report

**(o) Employee benefits**

**(i) Short term employee benefits**

Wages, salaries, paid annual leave, paid sick leave and bonuses are recognised as an expense in the period in which the associated services are rendered by employees.

**(ii) Post-employment benefits**

The Group pays monthly contributions to the EPF which is a defined contribution plan.

The legal or constructive obligation of The Group is limited to the amount that it agrees to contribute to the EPF. The contributions to the EPF are charged to profit or loss in the period to which they relate.

**(p) Borrowing costs**

Borrowing costs incurred on assets under development that take a substantial period of time for completion are capitalised into the carrying amount of the assets. Capitalisation of borrowing costs commence when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred and ceases when the asset is completed or during extended periods when active development is interrupted.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(q) Income tax**

The income tax expense in profit or loss represents the aggregate amount of current tax and deferred tax.

Current tax is the expected income tax payable or receivable on the taxable income or loss for the year, estimated using the tax rates enacted or substantially enacted by the end of the reporting period.

On the statement of financial position, a deferred tax liability is recognised for all taxable temporary differences while a deferred tax asset is recognised for deductible temporary differences and unutilised tax losses to the extent that it is probable that taxable profit will be available in future against which the deductible temporary differences and tax losses can be utilised.

12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

No deferred tax is recognised for temporary differences arising from the initial recognition of: (i) goodwill, or (ii) an asset or liability which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured based on tax consequences that would follow from the manner in which the asset or liability is expected to be recovered or settled, and based on the tax rates enacted or substantively enacted by the end of the reporting period that are expected to apply to the period when the asset is realised or when the liability is settled.

Current tax and deferred tax are charged or credited directly to other comprehensive income if the tax relates to items that are credited or charged, whether in the same or a different period, directly to other comprehensive income.

**(r) Foreign currencies**

Foreign currency transactions are recognised using the exchange rate prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss.

At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at reporting date. Exchange differences on monetary items are recognised in profit or loss.

**(s) Cash equivalents**

Cash equivalents include short term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

**(t) Goods and services tax**

Revenue, expenses and assets are recognised net of GST, unless the GST is not recoverable from the tax authority. The amount of GST not recoverable from the tax authority is recognised as an expense or as part of cost of acquisition of an asset. Receivables and payables relate to such revenue, expenses or acquisitions of assets are presented in the statement of financial position inclusive of GST recoverable or GST payable.



## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

GST recoverable from or payable to tax authority may be presented on net basis should such amounts are related to GST levied by the same tax authority and the taxable entity has a legally enforceable right to set off such amounts.

## 4. INVESTMENT PROPERTIES

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Freehold land and building Cost				
At beginning/end of year/period	303,683	303,683	303,683	303,683
Accumulated depreciation				
At beginning of year/period	54,594	56,968	59,342	61,715
Depreciation	2,374	2,374	2,373	1,187
At end of year/period	56,968	59,342	61,715	62,902
Carrying amount	<u>246,715</u>	<u>244,341</u>	<u>241,968</u>	<u>240,781</u>

Freehold land with carrying amount of 30 June 2015: RM185,000 and 30 June 2016: RM185,000 were registered in the name of Phang Yeen Aun, a then shareholder of Nova Lab and were held in trust by the shareholder on behalf of Nova Lab. On 18 August 2016, the freehold land have been registered in the name of Nova Lab.

The fair value of investment properties at each reporting date is 30 June 2015: RM1,200,000, 30 June 2016: RM1,200,000, 30 June 2017: RM790,000 and 31 December 2017: RM790,000 respectively. The fair value represents the amount at which the properties could be exchanged on an open market basis between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the reporting date. The fair value of the investment properties as at 30 June 2015 and 30 June 2016 respectively, was estimated by the directors of Nova Lab. The fair value of the investment properties as at 30 June 2017 and 31 December 2017 has been arrived based on valuation carried out by independent professional valuers who have appropriate professional qualification and recent experience in the relevant location and assets being valued.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 5. PROPERTY, PLANT AND EQUIPMENT

30.6.2015	Buildings RM	Furniture and fittings RM	Office equipment RM	Plant and machinery RM	Motor vehicles RM	Renovation RM	Total RM
Cost							
At 1.7.2014	2,931,125	1,044,359	868,438	3,943,198	270,975	114,259	9,172,354
Additions	-	20,588	23,192	919,768	-	23,125	986,673
At 30.6.2015	2,931,125	1,064,947	891,630	4,862,966	270,975	137,384	10,159,027
Accumulated depreciation							
At 1.7.2014	634,117	632,968	771,106	3,180,657	270,975	84,293	5,574,116
Depreciation	58,622	59,208	41,569	290,560	-	7,844	457,803
At 30.6.2015	692,739	692,176	812,675	3,471,217	270,975	92,137	6,031,919
Carrying amount at 30.6.2015	2,238,386	372,771	78,955	1,391,749	-	45,247	4,127,108

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

30.6.2016	Buildings RM	Furniture and fittings RM	Office equipment RM	Plant and machinery RM	Motor vehicles RM	Renovation RM	Total RM
Cost							
At 1.7.2015	2,931,125	1,064,947	891,630	4,862,966	270,975	137,384	10,159,027
Additions	-	-	20,049	104,169	-	-	124,218
Written off	(3,299)	(82,687)	(64,279)	(120,270)	-	(6,528)	(277,063)
At 30.6.2016	2,927,826	982,260	847,400	4,846,865	270,975	130,856	10,006,182
Accumulated depreciation							
At 1.7.2015	692,739	692,176	812,675	3,471,217	270,975	92,137	6,031,919
Depreciation	85,745	74,532	15,551	244,724	-	7,458	428,010
Written off	(528)	(53,571)	(47,114)	(91,407)	-	(6,207)	(198,827)
At 30.6.2016	777,956	713,137	781,112	3,624,534	270,975	93,388	6,261,102
Carrying amount at 30.6.2016	2,149,870	269,123	66,288	1,222,331	-	37,468	3,745,080

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

30.6.2017	Buildings RM	Furniture and fittings RM	Office equipment RM	Plant and machinery RM	Motor vehicles RM	Renovation RM	Capital work-in- progress RM	Total RM
Cost								
At 1.7.2016	2,927,826	982,260	847,400	4,846,865	270,975	130,856	-	10,006,182
Additions	-	2,072	29,667	120,257	104,075	-	90,896	346,967
Disposal	-	(14,708)	-	-	-	-	-	(14,708)
Written off	-	-	-	(50,817)	-	-	-	(50,817)
At 30.6.2017	2,927,826	969,624	877,067	4,916,305	375,050	130,856	90,896	10,287,624
Accumulated depreciation								
At 1.7.2016	777,956	713,137	781,112	3,624,534	270,975	93,388	-	6,261,102
Depreciation	83,580	54,165	16,519	247,114	10,407	6,177	-	417,962
Disposal	-	(4,840)	-	-	-	-	-	(4,840)
Written off	-	-	-	(50,337)	-	-	-	(50,337)
At 30.6.2017	861,536	762,462	797,631	3,821,311	281,382	99,565	-	6,623,887
Carrying amount at 30.6.2017	2,066,290	207,162	79,436	1,094,994	93,668	31,291	90,896	3,663,737

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

31.12.2017	Freehold land RM	Buildings RM	Furniture and fittings RM	Office equipment RM	Plant and machinery RM	Motor vehicles RM	Renovation RM	Capital work-in- progress RM	Total RM
Cost	-	2,927,826	969,624	877,067	4,916,305	375,050	130,856	90,896	10,287,624
At 1.7.2017	8,594,000	-	2,720	12,270	66,249	-	-	608,351	9,283,590
Additions	-	-	-	-	(41,510)	-	-	-	(41,510)
Written off	-	-	-	-	-	-	-	-	-
At 31.12.2017	8,594,000	2,927,826	972,344	889,337	4,941,044	375,050	130,856	699,247	19,529,704
Accumulated depreciation	-	861,536	762,462	797,631	3,821,311	281,382	99,565	-	6,623,887
At 1.7.2017	-	42,332	21,714	14,096	124,827	10,407	3,089	-	216,465
Depreciation Written off	-	-	-	-	(41,510)	-	-	-	(41,510)
At 31.12.2017	-	903,868	784,176	811,727	3,904,628	291,789	102,654	-	6,798,842
Carrying amount at 31.12.2017	8,594,000	2,023,958	188,168	77,610	1,036,416	83,261	28,202	699,247	12,730,862

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

Motor vehicles at cost of 30 June 2015: RM208,975 and 30 June 2016: RM208,975 were registered in the name of a director of Nova Lab and were held in trust by the director on behalf of Nova Lab. On 9 August 2016, the motor vehicles have been registered in the name of Nova Lab.

Included in property, plant and equipment are assets at cost of 30 June 2015: RM3,602,478, 30 June 2016: RM3,713,968, 30 June 2017: RM3,822,365 and 31 December 2017: RM4,357,213 which have been fully depreciated but are still in use.

Factory buildings were constructed on a piece of land belonging to Tan Sok Mooi, a director of Nova Lab. Nova Lab occupied the land at zero consideration. On 13 September 2017, Nova Lab entered into an agreement to acquire the land from the director for RM8,480,000.

## 6. INTANGIBLE ASSETS

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
<b>Product development expenditure</b>				
At beginning of year/period	2,540,730	3,282,773	3,768,848	4,260,645
Additions	742,043	486,075	529,530	207,232
Amortisation	-	-	(37,733)	(59,657)
At end of year/period	<u>3,282,773</u>	<u>3,768,848</u>	<u>4,260,645</u>	<u>4,408,220</u>

At the end of the reporting period, the product development expenditure was tested for impairment. The recoverable amounts of the product development expenditure are based on their value in use. The recoverable amounts are higher than the carrying amounts of the product development expenditure, and no impairment loss is recognised.

The value in use is determined using a discounted cash flow model, based on approved cash flow projections and business plan, covering a specific timeframe that reflects the market trend and the product life cycle, i.e. product development and testing, product registration and commercialisation.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

The value in use computation is based on the following key assumptions:

- The revenue, revenue growth, operating costs and margins are based on the respective product life cycle and products under development according to an approved business plan. The business plan is based on past experience, current market share, assessment of consumer market trend, expected demand for products under development, expectations of market growth and general inflation in Malaysia. The approved cash flow projections covering a 5-year period.
- The discount rate of 30 June 2015: 7%, 30 June 2016: 7%, 30 June 2017: 7% and 31 December 2017: 7% is used, which is the management's estimation that reflects the current market assessment applicable to the industry.
- Product registrations are approved within the estimated timeframe.

*Sensitivity analysis*

The calculation of value in use is most sensitive to the estimated product development expenditure, sales volume and discount rate. The sensitivity analysis did not indicate any impairment when realistic variations are applied to the key assumptions. The product development expenditure may suffer impairment loss should any of the following event occurs:

- Budgeted product development expenditure increased by 59% or more;
- Projected sales volume declined by 8% or more; or
- Discount rate increased to 19% or higher.

## 7. INVENTORIES

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM	RM	RM	RM
Raw materials	2,422,653	3,965,072	4,228,424	4,358,027
Work-in-progress	306,734	421,636	149,740	268,290
Finished goods	2,128,400	1,460,440	1,318,508	788,411
Goods in transit	65,360	83,030	221,033	157,848
	<u>4,923,147</u>	<u>5,930,178</u>	<u>5,917,705</u>	<u>5,572,576</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 8. TRADE AND OTHER RECEIVABLES

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Trade receivables	10,868,455	8,869,088	8,660,690	8,765,496
Allowance for doubtful debts	(779,410)	(1,045,510)	(369,097)	(176,224)
	<u>10,089,045</u>	<u>7,823,578</u>	<u>8,291,593</u>	<u>8,589,272</u>
Other receivables	530,281	98,704	329,110	611,816
Deposits	-	-	120,000	132,520
Deferred expenditure	-	233,620	445,064	696,559
GST recoverable	-	-	-	305,207
	<u>10,619,326</u>	<u>8,155,902</u>	<u>9,185,767</u>	<u>10,335,374</u>

Trade receivables are generally on terms of 30 to 60 days.

Included in trade receivables are the following amounts owing by related parties:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Companies in which directors and shareholders of the Group have financial interest	<u>2,109,287</u>	<u>424,716</u>	<u>-</u>	<u>1,393</u>
Directors, shareholders and their close family members	<u>-</u>	<u>-</u>	<u>13,710</u>	<u>13,809</u>

The amounts owing by related parties are unsecured, interest free and receivable according to agreed credit terms.



## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

Included in trade receivables are the following amounts:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Companies in which directors and shareholders of Nova Lab have financial interest during the financial year	-	-	1,529,478	-

As at 30 June 2017, the directors and shareholders of Nova Lab ceased to have financial interest in these companies.

Included in other receivables are the amounts owing by related parties:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Companies in which directors and shareholders of Nova Lab have financial interest	330,588	30,394	3,875	-

The amounts owing by related parties are unsecured, interest free and receivable on demand.

Included in other receivables are the following amounts:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
A company in which directors and shareholders of Nova Lab have financial interest during the financial year	-	-	29,466	-

As at 30 June 2017, the directors and shareholders of Nova Lab ceased to have financial interest in this company.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

The ageing analysis of trade receivables as at the reporting date is as follows:

	Gross RM	Impairment RM
<b>30.6.2015</b>		
Not past due	4,547,301	-
Less than 30 days past due	1,755,614	-
Between 31 and 60 days past due	1,094,557	-
Between 61 and 90 days past due	536,872	-
More than 90 days past due	2,934,111	779,410
	<u>10,868,455</u>	<u>779,410</u>
<b>30.6.2016</b>		
Not past due	4,217,264	-
Less than 30 days past due	1,286,417	-
Between 31 and 60 days past due	1,016,690	-
Between 61 and 90 days past due	645,230	-
More than 90 days past due	1,703,487	1,045,510
	<u>8,869,088</u>	<u>1,045,510</u>
<b>30.6.2017</b>		
Not past due	5,255,425	-
Less than 30 days past due	785,631	-
Between 31 and 60 days past due	1,384,360	-
Between 61 and 90 days past due	259,726	-
More than 90 days past due	975,548	369,097
	<u>8,660,690</u>	<u>369,097</u>
<b>31.12.2017</b>		
Not past due	6,614,956	-
Less than 30 days past due	1,358,645	-
Between 31 and 60 days past due	383,761	-
Between 61 and 90 days past due	25,652	-
More than 90 days past due	382,482	176,224
	<u>8,765,496</u>	<u>176,224</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

Allowance for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by directors with reference to past default experience and analysis of the counterparty's financial position.

Trade receivables which were past due but not impaired are related to a number of customers where, in the opinion of the directors, there is no expectation of default based on historical dealings.

Movements in the allowance for doubtful debts of trade receivables are as follows:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
At beginning of year/period	349,069	779,410	1,045,510	369,097
Allowance for doubtful debts	430,341	274,811	13,652	8,250
Allowance for doubtful debts no longer required	-	-	(327,532)	(201,123)
Written off	-	(8,711)	(362,533)	-
At end of year/period	<u>779,410</u>	<u>1,045,510</u>	<u>369,097</u>	<u>176,224</u>

The currency profile of receivables is as follows:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
RM	10,157,371	7,733,832	8,333,460	9,124,830
USD	278,362	142,417	287,243	381,465
RMB	183,593	46,033	-	-
	<u>10,619,326</u>	<u>7,922,282</u>	<u>8,620,703</u>	<u>9,506,295</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 9. CASH AND BANK BALANCES

The currency profile of cash and bank balances is as follows:

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM	RM	RM	RM
RM	1,179,433	4,063,288	2,005,855	1,457,315
USD	557,259	602,965	52,111	29,578
	<u>1,736,692</u>	<u>4,666,253</u>	<u>2,057,966</u>	<u>1,486,893</u>

## 10. SHARE CAPITAL

	Number of shares	Amount RM
Issued and fully paid:		
At 1 July 2014/30 June 2015	<u>935,000</u>	<u>935,000</u>
At 1 July 2015/30 June 2016	<u>935,000</u>	<u>935,000</u>

For the purpose of this report, the share capital as at 30 June 2015 and 30 June 2016 represents solely the issued and fully paid-up share capital of Nova Lab.

	Number of shares	Amount RM
At 1 July 2016	935,000	935,000
Issue of shares pursuant to the incorporation of the Company and subsequent sub-division of shares	20	2
At 30 June 2017	<u>935,020</u>	<u>935,002</u>

The Company was incorporated on 27 July 2016. For the purpose of this report, the share capital as at 30 June 2017 represents the aggregate issued and fully paid-up share capital of the Company and Nova Lab.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	Number of shares	Amount RM
At 1 July 2017	935,020	935,002
Issue of shares by Nova Lab	527,956	8,480,000
Elimination pursuant to merger accounting	(1,462,956)	(9,415,000)
	-----	-----
Share capital of the Company	20	2
Issue of shares pursuant to the Internal Restructuring	236,409,980	23,640,998
	-----	-----
At 31 December 2017	<u>236,410,000</u>	<u>23,641,000</u>

For the purpose of this report, the share capital as at 31 December 2017 represents solely the issued and fully paid-up share capital of the Company.

The Act comes into operation on 31 January 2017, except section 241 and Division 8 of Part III. The Act replaces the Companies Act 1965 upon its effective date.

Pursuant to the Act:

- The concept of authorised share capital is abolished.
- All shares issued before or upon the commencement of the Act shall have no par or nominal value.

There is no impact on the number of shares in issue as a result of this transition.

## 11. DEFERRED TAX LIABILITIES

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
At beginning of year/period	219,716	249,576	265,726	164,698
Recognised in profit or loss	29,860	16,150	(101,028)	(34,021)
	-----	-----	-----	-----
At end of year/period	<u>249,576</u>	<u>265,726</u>	<u>164,698</u>	<u>130,677</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

Deferred taxes are attributable to:

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Temporary differences from:				
Property, plant and equipment	249,576	256,726	311,615	256,850
Allowance for doubtful debts	-	-	(88,583)	(42,293)
Write-down of inventories	-	-	(57,274)	(83,880)
Others	-	-	(1,060)	-
	<u>249,576</u>	<u>265,726</u>	<u>164,698</u>	<u>130,677</u>

## 12. GOVERNMENT GRANTS

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
At beginning of year/period	1,939,096	2,946,710	3,160,131	3,119,174
Received during the year	1,037,139	278,508	-	301,800
Released to profit or loss	(29,525)	(65,087)	(40,957)	(45,878)
At end of year/period	<u>2,946,710</u>	<u>3,160,131</u>	<u>3,119,174</u>	<u>3,375,096</u>

Government grants are received by Nova Lab to finance the product development expenditure and acquisition of equipment for research and development activities. There are no unfulfilled conditions attach to the grants received.

## 13. TRADE AND OTHER PAYABLES

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
Trade payables	1,116,137	809,242	368,894	524,069
Other payables	631,976	657,660	510,533	319,329
GST payable	153,781	85,620	159,199	-
Dividend payable	-	3,085,500	2,300,100	-
Accruals	483,647	711,684	339,106	823,502
	<u>2,385,541</u>	<u>5,349,706</u>	<u>3,677,832</u>	<u>1,666,900</u>

The normal credit terms granted by suppliers range between 30 and 60 days.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

The currency profile of trade and other payables is as follows:

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM	RM	RM	RM
RM	1,685,870	5,049,098	3,377,219	1,646,581
USD	406,049	49,922	300,613	20,319
RMB	293,622	250,686	-	-
	<u>2,385,541</u>	<u>5,349,706</u>	<u>3,677,832</u>	<u>1,666,900</u>

Included in other payables is the amounts owing to related party:

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM	RM	RM	RM
A company in which directors and shareholders of Nova Lab have financial interest	28,230	-	-	-
	<u>28,230</u>	<u>-</u>	<u>-</u>	<u>-</u>

The amounts owing to related party is unsecured, interest free and repayable on demand.

## 14. AMOUNT OWING TO A DIRECTOR

Amount owing to a director is unsecured, interest free and repayable on demand.

## 15. REVENUE

	1.7.2014 to 30.6.2015	1.7.2015 to 30.6.2016	1.7.2016 to 30.6.2017	1.7.2016 to 31.12.2016	1.7.2017 to 31.12.2017
	RM	RM	RM	RM	RM
Sales of goods	14,891,049	16,128,285	18,282,228	10,102,946	8,522,291
OEM and services income	7,956,284	8,141,458	6,258,599	2,475,066	3,963,658
	<u>22,847,333</u>	<u>24,269,743</u>	<u>24,540,827</u>	<u>12,578,012</u>	<u>12,485,949</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 16. PROFIT BEFORE TAX

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Profit before tax is stated after charging:					
Cost of inventories recognised as an expense	6,091,248	6,288,005	6,945,587	3,424,193	3,559,699
Allowance for doubtful debts	430,341	274,811	13,652	-	8,250
Write-down of inventories	-	283,796	47,389	23,051	428,843
Auditors' remuneration:					
- Statutory audit	7,000	45,000	45,000	-	-
- Other audit	-	-	80,000	-	38,000
Amortisation of intangible assets	-	-	37,733	18,866	59,657
Bad debts written off	-	37,579	481	481	-
Depreciation	460,177	430,384	420,335	207,710	217,652
Employee benefits expense:					
- Salaries and bonuses	2,371,040	2,743,406	2,991,919	1,347,647	1,621,476
- EPF contributions	287,107	356,403	345,027	140,266	166,312
- Other benefits	107,123	125,290	172,894	122,119	193,845
Loss on foreign exchange - realised	36,879	-	18,731	37,948	42,398
Loss on foreign exchange - unrealised	-	-	4,416	-	-
Property, plant and equipment written off	-	78,236	480	-	-



## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Rental of equipment	4,560	4,560	4,180	2,280	2,660
Research and development expenditure	514,264	218,850	165,518	160,118	64,096
and crediting:					
Reversal of write-down of inventories	-	-	35,685	5,880	2,159
Government grants	147,817	75,452	-	-	8,013
Amortisation of deferred income	29,525	65,087	40,957	16,836	45,878
Gain on foreign exchange - realised	-	31,854	-	-	-
Gain on foreign exchange - unrealised	59,042	100,668	-	29,956	4,391
Interest income	2,601	255	5,278	187	9,207
Allowance for doubtful debts no longer required	-	-	327,532	-	201,123

Government grants received towards research and development of the Nova Lab's products. There are no unfulfilled conditions attach to the grants received. The amounts have been included in other income.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 17. TAX EXPENSE/(INCOME)

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Current year					
- current tax	521	-	1,005	36	1,401,402
- deferred tax	29,860	16,150	(101,028)	(205,726)	15,804
	<u>30,381</u>	<u>16,150</u>	<u>(100,023)</u>	<u>(205,690)</u>	<u>1,417,206</u>
Prior year					
- current tax	-	-	48	-	-
- deferred tax	-	-	-	-	(49,825)
	<u>30,381</u>	<u>16,150</u>	<u>(99,975)</u>	<u>(205,690)</u>	<u>1,367,381</u>

A reconciliation of income tax expense applicable to profit before tax at the statutory tax rate to income tax expense at the effective tax rate of the Company is as follows:

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Profit before tax	<u>12,309,515</u>	<u>13,552,214</u>	<u>13,609,644</u>	<u>7,017,649</u>	<u>5,875,384</u>
Taxation at statutory tax rate of 25%, 24%, 24%, 24% and 24%	3,077,379	3,252,531	3,266,315	1,684,716	1,410,092
Tax incentive obtained from differential tax rate of 20%, 19%, 19%, 19% and 18%	(25,000)	(25,000)	(25,000)	(25,000)	(30,000)
Tax effects arising from:					
- non-taxable income	(51,715)	(42,269)	-	-	-

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
- non-deductible expenses	25,774	12,925	66,092	19,705	37,114
- income exempted from tax	(2,996,057)	(3,182,037)	(3,407,430)	(1,885,111)	-
Prior year	-	-	48	-	(49,825)
	<u>30,381</u>	<u>16,150</u>	<u>(99,975)</u>	<u>(205,690)</u>	<u>1,367,381</u>

Nova Lab was granted Bionexus Status by the Malaysian Bioeconomy Development Corporation Sdn Bhd, where the statutory income is tax exempted for a period of ten years expired in June 2017. Upon the expiry of the tax exemption period, Nova Lab is entitled to a concessionary tax rate of 20% on its statutory income for a period of ten years. On 21 November 2017, Nova Lab made an application to Malaysian Bioeconomy Development Corporation Sdn Bhd for the implementation of the concessionary tax rate.

The Company is on the single tier tax system. Accordingly, any dividend distributed by the Company are exempted from tax in the hands of the shareholders.

## 18. DIVIDENDS

	Nova Lab RM
Financial year ended 30 June 2015:	
First interim single tier dividend of RM3 per share	2,805,000
Second interim single tier dividend of RM2.35 per share	2,197,250
Third interim single tier dividend of RM2.15 per share	2,010,250
Fourth interim single tier dividend of RM2.15 per share	2,010,250
Fifth interim single tier dividend of RM2 per share	1,870,000
Sixth interim single tier dividend of RM1 per share	935,000
Seventh interim single tier dividend of RM1 per share	935,000
	<u>12,762,750</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	Nova Lab RM
<b>Financial year ended 30 June 2016:</b>	
First interim single tier dividend of RM1.28 per share	1,196,800
Second interim single tier dividend of RM1.28 per share	1,196,800
Third interim single tier dividend of RM1.40 per share	1,309,000
Fourth interim single tier dividend of RM1.40 per share	1,309,000
Fifth interim single tier dividend of RM1.80 per share	1,683,000
Sixth interim single tier dividend of RM1.80 per share	1,683,000
Seventh interim single tier dividend of RM1.80 per share	1,683,000
Eighth interim single tier dividend of RM2.15 per share	2,010,250
Ninth interim single tier dividend of RM3.30 per share	3,085,500
	<u>15,156,350</u>
<b>Financial year ended 30 June 2017:</b>	
First interim single tier dividend of RM1.40 per share	1,309,000
Second interim single tier dividend of RM2.46 per share	2,300,100
Third interim single tier dividend of RM1.40 per share	1,309,000
Fourth interim single tier dividend of RM1.40 per share	1,309,000
Fifth interim single tier dividend of RM1.50 per share	1,402,500
Sixth interim single tier dividend of RM1.50 per share	1,402,500
Seventh interim single tier dividend of RM0.80 per share	748,000
Eighth interim single tier dividend of RM2.46 per share	2,300,100
	<u>12,080,200</u>
<b>Period ended 31 December 2017:</b>	
First interim single tier dividend of RM2.14 per share	<u>2,000,900</u>
<b>Period ended 31 December 2016:</b>	
First interim single tier dividend of RM1.40 per share	<u>1,309,000</u>
No dividend is declared or paid by the Company since its incorporation.	

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 19. EARNINGS PER SHARE

Earnings per share ("EPS") is calculated by dividing profit for the year/period by weighted average number of ordinary shares issued.

For the purpose of this report, the number of ordinary shares for the financial years ended 30 June 2015, 2016 and 2017 and 6 months ended 31 December 2016 represents the weighted average aggregate ordinary shares issued of the Company and Nova Lab. The number of ordinary shares for 6 months ended 31 December 2017 represents the weighted average ordinary shares issued of the Company.

	1.7.2014 to 30.6.2015	1.7.2015 to 30.6.2016	1.7.2016 to 30.6.2017	1.7.2016 to 31.12.2016 (Unaudited)	1.7.2017 to 31.12.2017
Earnings used in the calculation of basic EPS (RM)	12,279,134	13,536,064	13,709,619	7,223,339	4,508,003
Number of ordinary shares for the purposes of basic EPS	935,000	935,000	935,020	935,020	88,653,750
Basic EPS (RM)	<u>13.13</u>	<u>14.48</u>	<u>14.66</u>	<u>7.73</u>	<u>0.05</u>

The basic and diluted earnings per share are equal as the Group has no potential dilutive ordinary shares as at the end of each financial year/period.

For illustrative purpose, assuming the number of ordinary shares of the Company as at 31 December 2017 have been in issue throughout the financial year/period presented below:

	1.7.2014 to 30.6.2015	1.7.2015 to 30.6.2016	1.7.2016 to 30.6.2017	1.7.2016 to 31.12.2016 (Unaudited)	1.7.2017 to 31.12.2017
Earnings (RM)	12,279,134	13,536,064	13,709,619	7,223,339	4,508,003
Number of ordinary shares	236,410,000	236,410,000	236,410,000	236,410,000	236,410,000
Basic EPS (sen)	<u>5.19</u>	<u>5.73</u>	<u>5.80</u>	<u>3.06</u>	<u>1.91</u>

12. ACCOUNTANTS' REPORT (cont'd)

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**Nova Wellness Group Berhad  
Accountants' Report**

20. SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The board of directors of the Company is the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

Segment results, assets and liabilities include items directly attributable to each segment, and those items that can be allocated to each segment on a reasonable basis.

Business Segments

The Group operates in the nutraceutical industry, where principally involved in the following core activities:

- **House-brand products segment:**  
Development, production and sales of nutraceutical products which includes dietary supplements and functional food products, and skincare products under house brands.
- **OEM and services segment:**  
OEM development and production of nutraceutical products which includes dietary supplements and functional food products for the OEM customers under their brand.
- **Animal health segment:**  
Development and production of animal health products, to treat and prevent diseases for animals.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

1.7.2014 to 30.6.2015	House- brand products RM	OEM and services RM	Animal health RM	Total RM
Revenue	12,937,630	7,956,284	1,953,419	22,847,333
Segment results	9,935,536	5,775,359	1,045,190	16,756,085
Unallocated corporate expenses				(4,446,570)
Profit before tax				12,309,515
Tax expense				(30,381)
Profit for the year				12,279,134
<b>Other information:</b>				
<b>Assets</b>				
Intangible assets	3,282,773	-	-	3,282,773
Inventories	3,238,513	733,257	951,377	4,923,147
Trade receivables	5,293,211	4,062,141	733,693	10,089,045
	11,814,497	4,795,398	1,685,070	18,294,965
Unallocated corporate assets				6,645,850
Total segment assets				24,940,815
<b>Liabilities</b>				
Government grants	2,946,710	-	-	2,946,710
Unallocated corporate liabilities				2,636,240
Total segment liabilities				5,582,950

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

1.7.2015 to 30.6.2016	House- brand products RM	OEM and services RM	Animal health RM	Total RM
Revenue	14,198,862	8,141,458	1,929,423	24,269,743
Segment results	10,855,252	5,822,934	1,019,756	17,697,942
Unallocated corporate expenses				(4,145,728)
Profit before tax				13,552,214
Tax expense				(16,150)
Profit for the year				13,536,064
<b>Other information:</b>				
<b>Assets</b>				
Intangible assets	3,768,848	-	-	3,768,848
Inventories	4,912,065	624,107	394,006	5,930,178
Trade receivables	3,336,210	4,037,008	450,360	7,823,578
	12,017,123	4,661,115	844,366	17,522,604
Unallocated corporate assets				8,991,661
Total segment assets				26,514,265
<b>Liabilities</b>				
Government grants	3,160,131	-	-	3,160,131
Unallocated corporate liabilities				5,616,555
Total segment liabilities				8,776,686
Write-down of inventories	191,149	19,305	73,342	283,796



## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

1.7.2016 to 30.6.2017	House- brand products RM	OEM and services RM	Animal health RM	Total RM
Revenue	17,559,748	6,258,599	722,480	24,540,827
Segment results	12,610,196	4,621,568	351,772	17,583,536
Unallocated corporate expenses				(3,973,892)
Profit before tax				13,609,644
Tax income				99,975
Profit for the year				13,709,619
<b>Other information:</b>				
<b>Assets</b>				
Intangible assets	4,260,645	-	-	4,260,645
Inventories	5,484,626	345,649	87,430	5,917,705
Trade receivables	6,135,900	2,155,693	-	8,291,593
	15,881,171	2,501,342	87,430	18,469,943
Unallocated corporate assets				7,860,793
Total segment assets				26,330,736
<b>Liabilities</b>				
Government grants	3,119,174	-	-	3,119,174
Unallocated corporate liabilities				3,844,562
Total segment liabilities				6,963,736
Reversal of write-down of inventories	(18,397)	(266)	(17,022)	(35,685)
Write-down of inventories	38,965	8,286	138	47,389

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

<b>1.7.2016 to 31.12.2016 (Unaudited)</b>	<b>House- brand products RM</b>	<b>OEM and services RM</b>	<b>Animal health RM</b>	<b>Total RM</b>
Revenue	9,380,788	2,475,066	722,158	12,578,012
Segment results	7,017,466	1,767,732	351,450	9,136,648
Unallocated corporate expenses				(2,118,999)
Profit before tax				7,017,649
Tax income				205,690
Profit for the period				7,223,339
Reversal of write-down of inventories	(1,367)	(35)	(4,478)	(5,880)
Write-down of inventories	23,051	-	-	23,051

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

1.7.2017 to 31.12.2017	House- brand products RM	OEM and services RM	Animal health RM	Total RM
Revenue	8,522,291	3,963,658	-	12,485,949
Segment results	5,972,503	2,527,063	-	8,499,566
Unallocated corporate expenses				(2,624,182)
Profit before tax				5,875,384
Tax expense				(1,367,381)
Profit for the period				4,508,003
<b>Other information:</b>				
<b>Assets</b>				
Intangible assets	4,408,220	-	-	4,408,220
Inventories	5,365,850	206,726	-	5,572,576
Trade receivables	5,675,869	2,913,403	-	8,589,272
	15,499,939	3,120,129	-	18,570,068
Unallocated corporate assets				16,958,889
Total segment assets				35,528,957
<b>Liabilities</b>				
Government grants	3,375,096	-	-	3,375,096
Unallocated corporate liabilities				1,799,758
Total segment liabilities				5,174,854
Reversal of write-down of inventories	(2,159)	-	-	(2,159)
Write-down of inventories	403,324	25,519	-	428,843

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' ReportGeographical Segments

Revenues from external customers attributed to Malaysia and other geographical areas, i.e. the location of the customers, from which the Group derived revenue:

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
Malaysia	20,718,649	21,131,169	23,224,805	11,525,576	12,004,492
Others	2,128,684	3,138,574	1,316,022	1,052,436	481,457
	<u>22,847,333</u>	<u>24,269,743</u>	<u>24,540,827</u>	<u>12,578,012</u>	<u>12,485,949</u>

No geographical information for non-current assets is disclosed, as the Group operates predominantly in Malaysia.

Major Customers

Revenue from external customers which individually contributed 10% or more to the total revenue of the Group is as follows:

	1.7.2014 to 30.6.2015	1.7.2015 to 30.6.2016	1.7.2016 to 30.6.2017	1.7.2016 to 31.12.2016 (Unaudited)	1.7.2017 to 31.12.2017
Revenue (RM)	3,069,292	3,368,833	7,491,094	1,708,348	3,963,383
No. of customer	<u>1</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>2</u>

The revenue is attributable to house brands segment and OEM and services segment.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## 21. RELATED PARTY TRANSACTIONS

- (a) In addition to the related party transactions disclosed elsewhere in the financial statements, significant related party transactions during the financial years/periods are as follows:

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM	1.7.2017 to 31.12.2017 RM
				(Unaudited)	
<b>Transactions with companies in which the directors and shareholders of the Group have financial interest</b>					
Sales of goods	1,221,492	1,308,398	3,313,651	1,655,993	-
Sales of raw materials	-	-	156,305	121,350	13,006
Disposal of property, plant and equipment	-	-	9,868	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Transactions with a company in which a close family member of a director of the Group has financial interest</b>					
Sales of goods	27,972	59,752	41,640	29,640	6,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
<b>Transactions with directors, shareholders and their close family members</b>					
Sales of goods	41,846	35,937	15,859	4,610	16,554
Purchase of property, plant and equipment	-	-	-	-	8,480,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Transactions with key management personnel</b>					
Sales of goods	9,473	12,278	7,367	1,865	7,295
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

A portion of the office space of Nova Lab was occupied by companies in which the directors of Nova Lab had financial interest at zero consideration. As at 30 June 2017, that portion of office space is no longer occupied by those companies as the directors of Nova Lab ceased to have financial interest in those companies.

Certain trademarks registered under the name of Nova Lab were being used by companies in which the directors of Nova Lab had financial interest at zero consideration. As at 30 June 2017, the trademarks are no longer being used by those companies as the directors of Nova Lab ceased to have financial interest in those companies.

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## (b) Remuneration of key management personnel

	1.7.2014 to 30.6.2015 RM	1.7.2015 to 30.6.2016 RM	1.7.2016 to 30.6.2017 RM	1.7.2016 to 31.12.2016 RM (Unaudited)	1.7.2017 to 31.12.2017 RM
<i>Directors</i>					
Salaries and bonuses	137,200	154,600	208,600	94,600	174,707
EPF contributions	17,854	18,166	26,304	12,304	21,180
	<u>155,054</u>	<u>172,766</u>	<u>234,904</u>	<u>106,904</u>	<u>195,887</u>
<i>Other key management personnel</i>					
Salaries and bonuses	344,484	451,260	510,170	230,330	327,007
EPF contributions	37,240	48,860	56,328	22,260	37,380
	<u>381,724</u>	<u>500,120</u>	<u>566,498</u>	<u>252,590</u>	<u>364,387</u>
	<u>536,778</u>	<u>672,886</u>	<u>801,402</u>	<u>359,494</u>	<u>560,274</u>

## 22. FINANCIAL INSTRUMENTS

## (a) Classification of financial instruments

	30.6.2015 RM	30.6.2016 RM	30.6.2017 RM	31.12.2017 RM
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Trade and other receivables	10,619,326	7,922,282	8,740,703	9,333,608
Cash and bank balances	1,736,692	4,666,253	2,057,966	1,486,893
Total financial assets	<u>12,356,018</u>	<u>12,588,535</u>	<u>10,798,669</u>	<u>10,820,501</u>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM	RM	RM	RM
<b>Financial liabilities</b>				
<i>At amortised cost</i>				
Trade and other payables	2,231,760	5,264,086	3,518,633	1,666,900
Amount owing to a director	1,123	1,123	2,032	2,181
<b>Total financial liabilities</b>	<b>2,232,883</b>	<b>5,265,209</b>	<b>3,520,665</b>	<b>1,669,081</b>

## (b) Fair value of financial instruments

The carrying amounts of the financial assets and financial liabilities of the Group at each reporting date approximated or were at their fair values, in view of their short-term nature.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks. The significant risks of the Group include credit risk, foreign currency risk and liquidity and cash flow risks arising in the normal course of business. The directors seek to minimise the effects of these risks through monitoring of the risks and implementing risk mitigation policy when necessary.

## (a) Credit risk

Credit risk is the risk of loss that may arise should a counterparty default on its obligations.

The Group has significant concentration of credit risk arising from 30 June 2015: 4, 30 June 2016: 3, 30 June 2017: 4 and 31 December 2017: 3 major customers that represent approximately 30 June 2015: 44%, 30 June 2016: 57%, 30 June 2017: 54% and 31 December 2017: 47% of the gross trade receivables at the end of each reporting period. Trade receivables from other customers were individually below 5% of total gross trade receivables at the end of each reporting period. Nevertheless, the management has a credit policy in place to ensure that transactions are conducted with creditworthy counterparties. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's maximum exposure to credit risk in respect of its financial assets other than cash and cash equivalents is disclosed in note 8. The Group does not hold any collateral as security.



## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

Credit risk on liquid funds is limited because the Group only deals with licensed banks.

(b) *Foreign currency risk*

The Group is exposed to foreign currency risk as a result of its ordinary course of business when the currency denomination differs from its functional currency. Exposures to foreign currency risk are monitored on an ongoing basis.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities are disclosed in respective notes.

The Group is mainly exposed to foreign currency risk relating to USD and RMB.

*Sensitivity analysis*

The following table details the sensitivity of the Group's profit or loss to a 10% increase and decrease of the relevant foreign currencies against the functional currency of the Group, assuming all other variables remain unchanged. 10% represents management's assessment of the reasonably possible change in the foreign exchange rates. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts its translation at the end of the reporting period for a 10% change in foreign exchange rates. A positive/negative number below indicates a gain/loss respectively in the profit or loss where RM strengthens 10% against the relevant currencies. For a 10% weakening of RM against the relevant currencies, there would be an equal and opposite impact on profit or loss.

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM'000	RM'000	RM'000	RM'000
USD	(33)	(53)	(3)	(30)
RMB	8	16	-	-

The sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposure at each reporting date does not reflect the exposure throughout each financial year.

(c) *Liquidity and cash flow risk*

The Group manages its liquidity and cash flow profiles to ensure that business operations maintain optimum levels of liquidity at all times sufficient to meet contractual obligations as and when they fall due. The Group maintains sufficient banking facility to further reduce liquidity risk.

**12. ACCOUNTANTS' REPORT (cont'd)****Nova Wellness Group Berhad  
Accountants' Report**

Therefore, the Group seeks to ensure that its business operation through efficient working capital management (i.e. accounts receivable, inventories and accounts payable management), must be able to convert its current assets into cash and meet all demands for payment as and when they fall due.

The Group's financial liabilities at 30 June 2015, 30 June 2016, 30 June 2017 and 31 December 2017 are expected to be settled within one year.

**24. CAPITAL MANAGEMENT**

The Group's objective when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern while maximising shareholders' returns.

The Company actively and regularly reviews and manages its capital structure and when necessary, obtains borrowings to ensure optimal capital structure and shareholders' returns. The overall strategy of the Group remains unchanged throughout the financial years.

The capital structure of the Group comprises equity, i.e. issued capital and retained earnings.

The Company is not subject to any externally imposed capital requirement.

**25. CAPITAL COMMITMENTS**

	30.6.2015	30.6.2016	30.6.2017	31.12.2017
	RM	RM	RM	RM
Approved and contracted for:				
Purchase of property, plant and equipment	-	-	145,000	120,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Approved and not contracted for:				
Purchase of property, plant and equipment	-	-	16,500,000	15,800,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

12. ACCOUNTANTS' REPORT (*cont'd*)

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Nova Wellness Group Berhad  
Accountants' Report

26. ADOPTION OF MFRS AND PRIOR YEARS' ADJUSTMENTS

The financial statements of Nova Lab for the financial year ended 30 June 2016 have been prepared in accordance with MFRS for the first time. MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*, has been applied, with 1 July 2014 as the date of transition. In the previous years, the financial statements of Nova Lab were prepared in accordance with PERS in Malaysia.

The accounting policies set out in note 3 have been applied in preparing the financial statements of Nova Lab for the financial years ended 30 June 2015 and 2016 and thereafter.

This note discloses the adjustments made by Nova Lab in restating its PERS financial statements, including the statement of financial position as at 1 July 2014 and the financial statements as at and for the financial year ended 30 June 2015, in respect of the effects of transition from PERS to MFRS due to changes in accounting policies and prior years' adjustments due to correction of misstatements.

Effects of transition from PERS to MFRS and prior years' adjustments on the financial position of Nova Lab:

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## As at 1 July 2014

	Notes	As reported under PERS RM	Effects of transition to MFRS RM	Prior years' adjustments RM	Restated (MFRS) RM
<i>Assets</i>					
Investment properties	1	-	249,089	-	249,089
Property, plant and equipment	1	3,847,327	(249,089)	-	3,598,238
Intangible assets	3	5,218,957	-	(2,678,227)	2,540,730
Inventories	5,7	1,089,190	-	2,686,499	3,775,689
Trade and other receivables	4,7	10,976,828	-	(802,078)	10,174,750
Current tax assets		-	-	1,437	1,437
Fixed deposits		1,200,000	-	-	1,200,000
Cash and bank balances		1,844,422	-	-	1,844,422
<b>Total assets</b>		<b>24,176,724</b>	<b>-</b>	<b>(792,369)</b>	<b>23,384,355</b>
<i>Equity</i>					
Share capital		935,000	-	-	935,000
Retained earnings		22,115,143	-	(3,208,662)	18,906,481
		<b>23,050,143</b>	<b>-</b>	<b>(3,208,662)</b>	<b>19,841,481</b>
<i>Liabilities</i>					
Deferred tax liability	8	272,042	-	(52,326)	219,716
Government grants	6	-	-	1,939,096	1,939,096
Trade and other payables	7	854,539	-	529,523	1,384,062
		<b>1,126,581</b>	<b>-</b>	<b>2,416,293</b>	<b>3,542,874</b>
<b>Total equity and liabilities</b>		<b>24,176,724</b>	<b>-</b>	<b>(792,369)</b>	<b>23,384,355</b>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

## As at 30 June 2015

	Notes	As reported under PERS RM	Effects of transition to MFRS RM	Prior years' adjustments RM	Restated (MFRS) RM
<i>Assets</i>					
Investment properties	1	-	246,715	-	246,715
Property, plant and equipment	1	4,310,955	(246,715)	62,868	4,127,108
Intangible assets	3	6,284,241	-	(3,001,468)	3,282,773
Inventories	5,7	2,328,660	-	2,594,487	4,923,147
Trade and other receivables	4,7	11,926,781	-	(1,307,455)	10,619,326
Current tax assets		-	-	5,054	5,054
Cash and bank balances		1,736,692	-	-	1,736,692
<b>Total assets</b>		<b>26,587,329</b>	<b>-</b>	<b>(1,646,514)</b>	<b>24,940,815</b>
<i>Equity</i>					
Share capital		935,000	-	-	935,000
Retained earnings		23,586,153	-	(5,163,288)	18,422,865
		<b>24,521,153</b>	<b>-</b>	<b>(5,163,288)</b>	<b>19,357,865</b>
<i>Liabilities</i>					
Deferred tax liability	8	309,376	-	(59,800)	249,576
Government grants	6	-	-	2,946,710	2,946,710
Trade and other payables	7	1,755,677	-	629,864	2,385,541
Amount owing to a director		1,123	-	-	1,123
		<b>2,066,176</b>	<b>-</b>	<b>3,516,774</b>	<b>5,582,950</b>
<b>Total equity and liabilities</b>		<b>26,587,329</b>	<b>-</b>	<b>(1,646,514)</b>	<b>24,940,815</b>

## 12. ACCOUNTANTS' REPORT (cont'd)

Nova Wellness Group Berhad  
Accountants' Report

Effects of transition from PERS to MFRS and prior years' adjustments on the financial performance of Nova Lab:

**Financial year ended 30 June 2015**

	Notes	As reported under PERS RM	Effects of transition to MFRS RM	Prior years' adjustments RM	Restated (MFRS) RM
Revenue	7	22,855,523	-	(8,190)	22,847,333
Cost of sales	5,7	(6,042,740)	-	(48,508)	(6,091,248)
Gross profit		16,812,783	-	(56,698)	16,756,085
Other income	6	1,349,590	-	(1,109,014)	240,576
Administrative expenses	2,4,7	(1,647,623)	918,972	(661,679)	(1,390,330)
Selling and distribution expenses	7	(2,217,501)	-	(134,710)	(2,352,211)
Other expenses	2	-	(944,605)	-	(944,605)
Finance costs	2	(25,633)	25,633	-	-
Profit before tax		14,271,616	-	(1,962,101)	12,309,515
Tax expense	8	(37,854)	-	7,473	(30,381)
Profit for the year, and total comprehensive income for the year		14,233,762	-	(1,954,628)	12,279,134

Effects of transition from PERS to MFRS and prior years' adjustments on the cash flows of Nova Lab:

**Financial year ended 30 June 2015**

	As reported under PERS RM	Effects of transition to MFRS RM	Prior years' adjustments RM	Restated (MFRS) RM
Cash flows from:				
Operating activities	872,382	12,762,750	(1,465,413)	12,169,719
Investing activities	(2,180,113)	-	1,464,291	(715,822)
Financing activities	-	(12,762,750)	1,123	(12,761,627)

## 12. ACCOUNTANTS' REPORT *(cont'd)*

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### Nova Wellness Group Berhad Accountants' Report

The effects of transition from PERS to MFRS are as follows:

1. Recognition of investment properties which were included in property, plant and equipment previously.
2. Reclassification of certain expenses and losses among administrative expenses, other expenses and finance costs.

In addition to the effects of transition to MFRS, Nova Lab had made adjustments to the statements of financial position as at 30 June 2015 and 1 July 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2015. Material prior years' adjustments made are as follows:

3. Derecognition of intangible assets (i.e. development expenditure) which do not meet the recognition requirements of MFRS 138 Intangible Assets.
4. Recognition of allowance for doubtful debts, due to inappropriate assessment made on recoverability of debts in prior years.
5. Correction of misstatements in measurement of inventories and cost of sales in prior years.
6. Recognition of deferred income (government grants received) in accordance with MFRS 120 Accounting for Government Grants and Disclosure of Government Assistance. In prior years, all government grants were recognised in profit or loss when they were received.
7. Recognition of revenue, expenses and purchases of goods in accordance with the accounting policies of Nova Lab. In prior years, certain revenue, expenses and purchases of goods were recognised and recorded in inappropriate financial periods.
8. Recognition of deferred taxes in accordance with MFRS 112 Income Taxes.

## 27. SUBSEQUENT EVENTS

Subsequent to 31 December 2017, the Company obtained approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad.

From 30 March 2018 to 13 April 2018, the interim dividend declared and paid by Nova Lab in respect of financial year ending 30 June 2018 amounting to RM2,000,900 was returned by the then shareholders of Nova Lab.

**12. ACCOUNTANTS' REPORT** *(cont'd)*

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**Nova Wellness Group Berhad**  
**Accountants' Report**

On 16 May 2018, the Company obtained a court order pursuant to Section 116 of the Act to reduce 85,316,358 ordinary shares in the Company. Thereafter, the Company obtained Notice of Confirming Reduction of Share Capital from the Registrar of Companies that on 18 May 2018, all requirements with respect to reduction of share capital of the Company has been complied with, and that the share capital reduced from 236,410,000 to 151,093,642 ordinary shares.

**28. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group subsequent to 31 December 2017.



12. ACCOUNTANTS' REPORT (cont'd)

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**NOVA WELLNESS GROUP BERHAD**  
Company No. 1196094-M  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**

In the opinion of the directors, the combined financial statements and consolidated financial statements of the Group, of which the financial information set out on pages 5 to 66 is based upon, are drawn up so as to give a true and fair view of the financial position of the Group as at 30 June 2015, 30 June 2016, 30 June 2017 and 31 December 2017 and of their financial performance and cash flows for each of the financial years ended 30 June 2015, 30 June 2016 and 30 June 2017 and 6 months ended 31 December 2016 and 31 December 2017 in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Signed on behalf of the directors on - 1 JUN 2018



PHANG NYIE LIN  
Director



PHANG YEEN NUNG  
Director

### 13. VALUATION CERTIFICATE



(Co. Reg. No. 637371-A)

## IPC ISLAND PROPERTY CONSULTANTS SDN. BHD.

VALUER \* PROPERTY MANAGER \* PROPERTY CONSULTANT \* ESTATE AGENT



PENILAI / AGEN  
HARTA TANAH  
VE (1) 0099/1

No. 40A, Tingkat 1, Jalan Sri Sarawak 19, Taman Sri Andalas, 41200 Klang, Selangor Darul Ehsan. Tel: 03-3323 8544 / 3324 7014 Fax: 03-3323 9544 E-mail: ipcklang@yahoo.com.my

Our Ref. : IPC/KLG/SC/MF/AZ/17-370  
Date : 8<sup>th</sup> September 2017

#### MESSRS. NOVA LABORATORIES SDN BHD

No. Lot 708, Nova Avenue,  
43950 Sungai Pelek, Sepang,  
Selangor Darul Ehsan

Dear Sirs,

#### Valuation Certificate For:

**VALUATION ON AN INDUSTRIAL LAND IDENTIFIED AS LOT NO. 708, TITLE NO. GM 275, MUKIM AND DISTRICT SEPANG, STATE OF SELANGOR DARUL EHSAN BEARING POSTAL ADDRESS NO. LOT 708, NOVA AVENUE, 43590 SUNGAI PELEK, SEPANG, SELANGOR DARUL EHSAN. (HEREINAFTER REFERRED TO AS THE "SUBJECT PROPERTY")**

This Valuation Certificate is prepared by IPC Island Property Consultants Sdn Bhd for inclusion in the prospectus of Nova Wellness Group Berhad in relation to its listing on the ACE Market of Bursa Malaysia Securities Berhad. The valuation was undertaken pursuant to the purchase of the Subject Property by Messrs. Nova Laboratories Sdn Bhd.

In accordance with your instructions to value the Subject Property (**Land Only Without Taking Into Consideration The Building On The Land**) for the purpose of the purchase of the Subject Property, we have inspected the Subject Property on **30<sup>th</sup> August 2017** and the material date of valuation is the date of inspection, i.e. **30<sup>th</sup> August 2017**. We had also extracted particulars of the title at the Sepang Land Title Office, Bandar Baru Salak Tinggi on 7<sup>th</sup> September 2017 and gathered other necessary information to arrive at our opinion of value.

The basis of valuation is the "Market Value" which is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion (**Malaysian Valuation Standards : 4.3.1**)

This valuation has been prepared in accordance with Asset Valuation Guidelines issued by the Securities Commission Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia and with the necessary professional responsibility and due diligence.

#### IDENTIFICATION OF SUBJECT PROPERTY

##### Type of Subject Property

The subject of this valuation refers to a freehold interest property of an industrial land with detached factory identified as **Lot No. 708, Title No. GM 275, Mukim and District of Sepang, State of Selangor Darul Ehsan.**

We have been given instruction to assess the **Market Value** for the **Land Only Without Taking Into Consideration The Building On The Land.**

Head Office	: Wisma IPC, No. 11, Jalan Belangkas, Taman Maiuri, Off Jalan Kg. Pandan, 55100 Kuala Lumpur. www.ipckl.com	Tel: 03-9282 3500 / 9282 6500	Fax: 03-9282 7500
Kajang	: No. 23A, 1st Floor, Jalan Prima Saujana 1/1A, Taman Prima Saujana, 43000 Kajang, Selangor.	Tel: 03-8733 2355	Fax: 03-8733 2352
Seremban	: No. 39, 1st Floor, Jalan Dato Bandar Tunggal, 70000 Seremban, Negeri Sembilan.	Tel: 06-762 2424	Fax: 06-762 2423
Melaka	: Wisma IPC, No. 10, Jalan Nangka 2, Taman Rumpun Bahagia, Bachang, 75300 Melaka.	Tel: 06-335 4126	Fax: 06-335 4128
Johor	: Wisma IPC, No. 9 - 01, Jalan Sagu 17, Taman Daya, 81100 Johor Bahru, Johor.	Tel: 07-355 7858	Fax: 07-355 1858
Kedah	: No. 8, 2nd Floor, Jalan Selasih, Taman Semarak, 09000 Kulim, Kedah.	Tel: 04-491 1898	Fax: 04-495 1698
Kota Bharu	: PT 3276 (Lot 8004) Tingkat 1, Rumah Kedai Bandar Satelit, Pasir Tumbuh, 16150 Kota Bharu, Kelantan.	Tel: 09-765 6511	Fax: 09-764 8511
Sarawak	: Survey Lot 12951 (Sublot 20), Heritage Garden, Jalan Tun Abdul Rahman Yaakub, 93050 Kuching, Sarawak.	Tel: 082-244 550	Fax: 082-245 550

### 13. VALUATION CERTIFICATE (cont'd)



(Co. Reg. No. R37371-A)

IPC ISLAND PROPERTY CONSULTANTS SDN. BHD.

REAL ESTATE VALUATION AND CONSULTANCY SERVICES



PENILAI AGEN  
HARTA TANAH  
No. 1/06991

#### Location

The Subject Property is located within an industrial area known as Perusahaan NOVA, sited at Off Jalan Tanjung Sepat – Sepang, Sungai Pelek, Sepang, Selangor Darul Ehsan

The Subject Property is situated about 3.5 kilometres to the north east of Pekan Sungai Pelek and about 22 kilometres to the south of Bandar Baru Salak Tinggi. It is accessible via Jalan Tanjung Sepat – Sepang, and thence turn left onto Perusahaan Nova for 1 kilometre to the Subject Property.

Pekan Sungai Pelek which consists of two to three storey shop offices and shop houses is located approximately 3.5 kilometres from the Subject Property. This town centre provides basic and retail shopping facilities, educational as well as financial institutional to the larger neighbourhood.

#### Title Particulars

Title No. : GM 275  
Lot No. : Lot 708  
Land Area : 22,257.675 square metres (5.5 acres)  
Tenure : Freehold Interest (Grant In Perpetuity)  
Registered Owner : Tan Sok Mooi  
Category of Land Use : Perusahaan/Perindustrian  
Express Condition : Perusahaan

The Subject Property was purchased vide the Sale and Purchase Agreement dated 16<sup>th</sup> September 2017 at **RM8,480,000.00**.

#### **PROPERTY DESCRIPTION**

##### Site

The subject site is trapezium in shape, flat in terrain and lies at the same level as the existing frontage metalled road, Perusahaan Nova and encompasses a registered land area 22,257.675 square metres (5.5 acres).

At the date of our inspection we noted that the subject site was demarcated with chainlink fencing. The entrances to the site are secured with two sliding metal gates hinged onto brick pillars.

Erected on the site amongst others, are two blocks of detached buildings which consists of a double-storey office, warehouse and production facilities, a guard house, and a Tenaga Nasional Berhad sub-station.

##### Buildings

###### Permanent;

- i. Two blocks of detached buildings which consist of a double-storey office buildings, production facilities and a warehouse.

###### Semi Permanent

- ii. Two Garages
- iii. Tenaga Nasional Berhad Sub-station.
- iv. A two double-storey laboratories
- v. A guard house
- vi. A single-storey canteen

**13. VALUATION CERTIFICATE (cont'd)**



- vii. Six single-storey store rooms.
- viii. A water tank
- ix. An oil tank
- x. A single-storey warehouse
- xi. A production facility
- xii. A single-storey meeting room.

At the date of our inspection, the building is observed to be in a good state of repair. However, we have been given instruction by the client to value the Land Only excluding the factory building. The rationale for excluding the building was by the virtue of the land belonging to Tan Sok Mooi whereas the building is owned by Nova Laboratories Sdn Bhd. The Valuation only involved the land since Nova Laboratories Sdn Bhd intends to buy the land from Tan Sok Mooi.

We noted that the building plans have been issued with a Certificate of Completion for Compliance (CCC) bearing Reference No. 9/SP/87/00, dated 18<sup>th</sup> July 2001 by Majlis Perbandaran Sepang (MPS). An Approval Temporary Permit for semi permanent building has been issued in 2017.

**Planning Details**

The Subject Property is designated for industrial use as stated in the title.

**MARKET VALUE**

**Date of Valuation**

The material date of valuation shall be the date of inspection, i.e. 30<sup>th</sup> August 2017.

**Method of Valuation**

In arriving at the Market Value of the Subject Property, we have adopted the Comparison Method of valuation.

The Subject Property is valued using **Comparison Method**. It entails comparing the subject property with comparable properties which have been sold or are being offered for sale and making adjustments for factors which affect value such as location, time, accessibility, market condition, size, shape and terrain of land, tenurial interest and restriction if any and other relevant characteristic.

**Comparison Method**

Summary of sales comparable analysis are as follows:

Comparables	1	2	3
Scheme	Bandar Baru Brooklands	Bandar Baru Brooklands	Jalan Sungai Pelek
Address	(PT 43045) Lot 46453,45460 Bandar Mahkota Banting	PT 32238, Ladang Brooklands	Lot 1545, Mukim Sepang
Land Area (hectare)	2.226	0.832	0.45
Land Area (s.q.m)	22,260.00	8,320.00	4,500.00
Tenure	Freehold	Freehold	Leasehold 99 years
Title	HSM 21541	HSM 18994	PM 1294
Land use	Industry	Industry	Industry

**13. VALUATION CERTIFICATE (cont'd)**

Co. Reg. No. 637371-A

**IPC ISLAND PROPERTY CONSULTANTS SDN. BHD.**

REAL ESTATE VALUATION AND CONSULTANCY SERVICES

PENAJABATAN  
HARTA TANAH  
VE 11/0367

Comparables	1	2	3
Express Condition	Medium Industry	Medium Industry	Industry
Zoning	Industry	Industry	Industry
Price Sold (RM)	13,776,635.00	4,030,042.00	1,200,000.00
Share Transacted	1.00	1.00	1.00
Date	03/11/2015	22/10/2015	6/11/2014
Land Value	13,776,635.00	4,030,042.00	1,200,000.00
Land Value p.s.m.	618.90	484.38	266.67
Land Value p.s.f.	57.50	45.00	24.77
After Adjusted Land Value p.s.m.	381.24	303.71	355.73
After Adjusted Land Value p.s.ft.	35.42	28.22	33.05

Based on the above, our analysis of land values of the transacted properties are in the range of RM28.22 to RM35.42 per sq. foot. In reconciling our opinion of the Market Value, we have placed a greater emphasis on Comparable 1 which has the most similarity with the Subject Property in terms of size. After considering all of the above factors, we are of the opinion that the Market Value of the land value is **RM8,480,000.00 (RM35.42 per square foot)**


**MARKET VALUE**

Having regard to the foregoing, we are of the opinion that the Market Value of the Subject Property (**Land Only Without Taking Into Consideration The Building On The Land**) with a registered land area of **22,257.675 square metres (5.5 acres)**, subject to the title which is being good, marketable, and registrable, free from legal encumbrances and with the benefit of a freehold title and with vacant possession is **RM8,480,000 (RINGGIT MALAYSIA: EIGHT MILLION AND FOUR HUNDRED EIGHTY THOUSAND ONLY)**.

**VALUER BACKGROUND**

The undersigned is Graduated with a **Bachelor's Degree in Estate Management with Honours from UiTM** in 1994 and secured his license as a **Registered Valuer and Estate Agent from the Board of Valuers, Appraisers and Estate Agents Malaysia** in 2000. During his services as a Registered Valuer since year 2000, he has been appointed as **Assessor to the Judge in Shah Alam High Court and Temerloh High Court**. Currently, he is also a director of **IPC Property Management Sdn. Bhd., IPC Realty Sdn. Bhd and IPC Holding Sdn. Bhd.** His experience in valuation covers wide range of valuation works from financial purposes to statutory valuations such as Land Acquisition, rating and property taxation.

Yours faithfully,

For & on behalf of  
**IPC ISLAND PROPERTY CONSULTANTS SDN BHD**


**AZMAN BIN WAHID**  
Registered Valuer  
Reg. No. V 544  
B. Est, mgmt. (Hons) ITM

## 14. STATUTORY AND OTHER GENERAL INFORMATION

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### 14.1 EXTRACTS OF OUR CONSTITUTION

The following provisions relating to the selected matters are reproduced from our Company's Constitution. Terms defined in our Constitution shall have the same meaning when used herein unless they are otherwise defined herein or the context otherwise requires.

(i) **Transfer of securities**

The provision in our Company's Constitution in respect of the arrangements for transfer of securities and restrictions on their free transferability are as follows:

**Clause 45**

The transfer of any listed security or class of listed security in the Company, shall be by way of book entry by the Depository in accordance with the Rules of the Depository and, notwithstanding Sections 105, 106 and 110 of the Act, but subject to section 148(2) of the Act and any exemption that may be made from compliance with section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of listed security.

**Clause 47**

The Depository may refuse to register any transfer of listed securities that does not comply with the Depositories Act and the Rules of the Depository.

**Clause 48**

The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine not exceeding in the whole thirty (30) days in any year. At least ten (10) clear Market Days' notice of intention to close the said register shall be published in a daily newspaper circulating in Malaysia and shall also be given to the Exchange or such number of days as may be prescribed by the Exchange. At least three (3) Market Days prior notice shall be given to the Depository to prepare the appropriate Record of Depositors provided that where the Record of Depositors is required in respect of corporate actions at least seven (7) Market Days prior notice shall be given to the Depository or such other notice period in accordance with the Rules of the Depository to enable the Depository to issue the appropriate Record of Depositors.

**Clause 49**

Subject to the provisions of these Clauses the Directors may recognise a renunciation of any listed securities by the allottee thereof in favour of some other person.

**Clause 50**

Neither the Company nor its Directors nor any of its officers shall incur any liability for registering or acting upon a transfer of shares.

**14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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(ii) **Remuneration of Directors**

The provisions in our Company's Constitution in respect of the remuneration of Directors are as follows:

**Clause 117**

The fees and any benefits payable to the Directors shall be such fixed sum, subject to annual shareholder approval at a general meeting and other provisions of the Constitution, from time to time be determined by an ordinary resolution of the Company and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such fees are payable shall be entitled only to rank in such division for a proportion of the fees related to the period during which he has held office provided always that:

- (a) fees payable to non-executive Directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover;
- (b) salaries payable to executive directors may not include a commission on or percentage of turnover;
- (c) fees payable to Directors shall not be increased except pursuant to a resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting; and
- (d) any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

**Clause 118**

The Directors shall be entitled to be reimbursed for all travelling or such other reasonable expenses as may be incurred in attending and returning from meetings of the Directors or of any committee of the Directors or general meetings or otherwise howsoever in or about the business of the Company in the course of the performance of their duties as Directors.

**Clause 118.2**

If by arrangement with the Directors, any Director shall perform or render any special duties or service's outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Directors may pay him special remuneration, in addition to his Director's fees, and such special remuneration may be by way of a fixed sum, or otherwise as may be arranged.

**14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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(iii) **Voting and borrowing powers of Directors**

The provisions in our Company's Constitution in respect of the voting and borrowing powers of Directors, including voting powers on proposals, arrangements or contracts in which they are interested in, are as follows:

**Clause 123**

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or of any related third party provided always that nothing contained in this Constitution shall authorise the Directors to borrow any money or mortgage or charge any of the Company's undertaking, property or any uncalled capital or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

**Clause 124**

The Directors shall have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to any Director or ex-Director who may hold or have held any executive office or any office of profit under the Company or any subsidiary company, and for the purpose of providing any such pensions or other benefits, to contribute to any scheme or fund or to pay premiums.

**Clause 127**

A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending Director shall be disqualified by his office from contracting with the Company with regard to his tenure of any such office or place of profit in any other respect nor shall any such contract, or any contract or arrangement entered into by or on behalf of any company in which any Director is in any way interested, be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relation thereby established provided always that Sections 221 and 228 and all other relevant provisions of the Act and this Constitution are complied with.

**Clause 142**

A Director shall not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly, an interest. Without prejudice to the generality of the foregoing, a Director shall also not vote in regard to any contract or proposed contract or arrangement with any other company in which he is interested either as an officer of that other company or as a holder of shares or other securities in that other company.



**14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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**Clause 143**

A Director, notwithstanding his interest may, provided that none of the other directors present disagree, be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any office or place of profit under the Company or whereat the Directors resolve to exercise any of the rights of the Company, (whether by the exercise of voting rights or otherwise) to appoint or concur in the appointment of a Director to hold any office or place of profit under any other company or whereat the terms of any such appointment as hereinafter mentioned are considered or whereat any decision is taken upon any contract or arrangement in which he is in any way interested provided always that he has complied with Section 221 and all other relevant provisions of the Act, the Listing Requirements and of this Constitution.

**Clause 144**

Subject to Clause 142, a Director may vote in respect of:

- (a) any arrangement for giving the Director himself or any other Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company; or
- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of a security.

**Clause 145**

By ordinary resolution of the Company the provisions of this Clause may at any time be suspended or relaxed to any extent and either generally or in respect of any particular contract, arrangement or transaction, and any particular contract, arrangement or transaction carried out in contravention of this Clause may be ratified.

**Clause 146**

A Director may be or become Director or other officer of or otherwise interested in any corporation promoted by the Company or in which the Company may be interested as shareholder or otherwise, or any corporation, which is directly or indirectly interested in the Company as shareholder or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a Director or officer of, or from his interest in, such corporation, unless the Company otherwise directs at the time of his appointment. The Directors may exercise the voting power conferred by the shares or other interest in any such other corporation held or owned by the Company, or exercisable by them as Directors of such other corporation in such manner and in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of the Directors or other officers of such corporation) and any Director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be, or is about to be appointed, a Director or other officer of such corporation and as such is or may become interested in the exercise of such voting rights in manner aforesaid provided always that he has complied with Section 221 and all other relevant provisions of the Act, the Listing Requirement and of this Constitution.

**14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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(iv) **Changes in Capital and Variation of Class Rights**

The provisions in our Company's Constitution in respect of the changes in capital and variation of class rights, which are no less stringent than those required by law, are as follows:

**Clause 8**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, and subject to the Act and to the conditions, restrictions and limitations expressed in this Constitution, the Directors may allot shares or grant rights to subscribe for or otherwise dispose of the unissued shares in the Company to such persons, at such time and on such terms and conditions, with such preferred or deferred or other special rights, as they think proper, provided always that:

- (a) no shares shall be issued which shall have the effect of transferring a controlling interest in the Company without the prior approval of the members in general meeting;
- (b) in the case of shares other than ordinary shares, no special rights shall be attached until the same have been expressed in this Constitution;
- (c) every issue of shares or options to employees and/ or Directors shall be approved by the members in general meeting and:
  - (i) such approval shall specifically detail the amount of shares of options to be issued to such employees and/ or Directors; and
  - (ii) a Director not holding office in an executive capacity may so participate in an issue of shares pursuant to a public offer or a public issue;
- (d) the Company must ensure that all new issues of Securities for which listing is sought are made by way of crediting the Securities Accounts of the allottees with such Securities save and except where it is specifically exempted from compliance with Section 38 of the Central Depositories Act, in which event it shall so similarly be exempted from compliance with this requirement. For this purpose, the Company must notify the Depository of the names of the allottees and all such particulars required by the Depository, to enable the Depository to make the appropriate entries in the Securities Accounts of such allottees;
- (e) the Company must allot and issue Securities, despatch notices of allotment to the allottees and make an application for the quotation of such securities within such periods as may be prescribed by the Exchange.

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## 14. STATUTORY AND OTHER GENERAL INFORMATION *(cont'd)*

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### Clause 9

Subject to the Act, any preference shares may be issued on the terms that they are, or at the option of the Company are liable, to be redeemed provided that:

- (a) the holders of preference shares shall have the same rights as the holders of ordinary shares in relation to receiving notices, reports and audited financial statements and attending general meetings of the Company but shall only have the right to vote at any meeting convened for the purpose of reducing the Company's share capital, or on a proposal to wind up the Company, or sanctioning the disposal of the whole of the Company's property, business and undertaking or where the proposition to be submitted to the meeting directly affects the rights and privileges attached to the share, or when the dividend or part of the dividend on such shares is in arrears for more than 6 months and during the winding up of the Company;
- (b) the holder of a preference share shall be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up; and
- (c) the Company shall not, without the consent of the existing preference shareholders at a class meeting or pursuant to Clause 20 hereof, issue further preference capital ranking in priority above preference shares already issued but may issue preference shares ranking equally therewith.

### Clause 12

In addition to all other powers of paying commissions, the Company (or the Board on behalf of the Company) may exercise the powers conferred by Section 80 of the Act of applying its shares or capital moneys in paying commissions to persons subscribing or procuring subscriptions for shares of the Company, or agreeing so to do whether absolutely or conditionally, provided that the percentage or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the Act and shall not exceed 10% of the price at which the shares in respect whereof the commission is paid are issued or an amount equivalent thereto. Subject to the provisions of Section 78 of the Act, such commission may be satisfied by the payment of cash or allotment of fully or partly paid shares or partly in one way and partly in the other. The Company (or the Board on behalf of the Company) may also on any issue of the shares pay such brokerage as may be lawful.

### Clause 21

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of shares of that class) may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders representing not less than 75% of the total voting rights of the shareholders in the class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of this Constitution relating to general meetings shall *mutatis mutandis* apply; but so that the necessary quorum shall be two (2) persons at least holding or represented by proxy one-third (1/3) of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll. On a poll, the holders of the shares shall have one (1) vote for every share of the class held by them respectively. To every such special resolution, the provisions of Section 292 of the Act shall, with such adaptations as are necessary, apply.

**14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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**Clause 22**

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards to participation in the profits or assets of the Company in some or in all respects *pari passu* therewith.

**Clause 61**

The Company may from time to time, by ordinary resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount to be divided into shares of such respective amounts and (subject to any special, limited or conditional voting rights for the time being attached to any existing class of shares) to carry such preferential rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company may direct in the resolution authorising such increase.

**Clause 64**

Except so far as otherwise provided by the conditions of issue, any capital raised by the creation of new shares shall be considered as part of the original share capital of the Company. All new shares shall be subject to the provisions herein contained with reference to allotments, the payment of calls and instalments, transfer, transaction, transmission, forfeiture, lien or otherwise and shall also be subject to the Rules.

**Clause 65.1**

The Company may alter its share capital by passing a special resolution to:

- (a) consolidate and divide all or any of its share capital, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived;
- (b) convert all or any of its paid-up shares into stock and may reconvert that stock into paid-up shares;
- (c) subdivide its shares or any of the shares, whatever is in the subdivision, the proportions between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived; or
- (d) cancel any shares which at the date of the passing of the resolution which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled.

**Clause 65.2**

The Company may reduce its share capital by:

- (a) a special resolution and confirmation by the Court in accordance with Section 116 of the Act; or
- (b) a special resolution supported by a solvency statement in accordance with Section 117 of the Act.

## **14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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### **14.2 SHARE CAPITAL**

- (i) No Shares will be allotted or issued on the basis of this Prospectus later than 6 months after the date of the issue of this Prospectus.
- (ii) There is no founder, management or deferred shares in our Company. We have only one class of shares in our Company, namely ordinary shares, all of which rank equally with one another.
- (iii) None of our Group's capital is under option, or agreed conditionally or unconditionally to be put under any option.
- (iv) Save for the new Shares issued pursuant to the Acquisition as disclosed in Section 5.2.1 and new ordinary shares in Nova Laboratories pursuant to a land acquisition as disclosed in Section 5.4, no shares, debentures, warrants, options, convertible securities or uncalled capital of our Company and/ or our subsidiary have been issued or are proposed to be issued as fully or partly paid-up in cash or otherwise, within the two years preceding the date of this Prospectus.
- (v) Other than 15,000,000 Public Issue Shares reserved for our eligible Directors and employees of our Group and other persons who have contributed to the success of our Group as disclosed in Section 3.3.1(ii):
  - a) no person including Directors or employees of our Group has been or is entitled to be given or has exercised any option to subscribe for any shares or debentures, warrants, options, convertible securities or uncalled capital of our Company or our Subsidiary; and
  - b) there is currently no other scheme involving our Directors and employees of our Group and business associates who have contributed to the success of our Group in the share capital of our Company or our Subsidiaries.
- (vi) As at the date of this Prospectus, we do not have any convertible debt securities, options, warrants and uncalled capital.

### **14.3 LIMITATION ON THE RIGHTS TO HOLD SECURITIES AND/ OR EXERCISE VOTING RIGHTS**

Save as disclosed below which has been reproduced from our Constitution, there is no limitation on the right to own securities, including limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on our Shares imposed by law or by the constituent documents of our Company:

#### **Clause 23**

The Directors may from time to time make such calls upon the members as the Directors may think fit in respect of any money unpaid on their shares. Except in the case of calls payable at fixed times pursuant to the conditions of allotment, each member shall be entitled to receive at least fourteen (14) days' notice specifying the date, time or times and place of payment pay to the Company at the time or times and place so specified, the amount called on his shares. A call may be revoked or postponed as the Directors may determine.

## **14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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### **Clause 71(i)**

The Company shall request the Depository in accordance with the Rules, to issue a Record of Depositors to whom notices of general meetings shall be given by the Company. The Company shall also request the Depository in accordance with the Rules, to issue a Record of Depositors as at the latest date which is reasonably practicable which shall in any event be not less than three (3) Market Days before the general meeting.

### **14.4 MATERIAL LITIGATION, CLAIMS AND ARBITRATION**

As at the LPD, neither our Company nor our subsidiary is engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which may have a material effect on our Group's financial position and our Directors do not have any knowledge of any proceedings pending or threatened against our Group or any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of our Group.

### **14.5 MATERIAL CONTRACTS**

Save as disclosed below, there are no contracts which are material (including contracts not reduced into writing and contracts not being entered into in the ordinary course of business) that have been entered into by our Group within two years preceding the date of this Prospectus:

- (i) the sale and purchase agreement dated 13 September 2017 entered into between Tan Sok Mooi and Nova Laboratories for the acquisition of the land held under GM 275, Lot 708, Mukim Sepang, Daerah Sepang, Negeri Selangor for a purchase consideration of RM8,480,000;
- (ii) the share sale agreement dated 24 October 2017 entered into between Phang Nyie Lin, Tan Sok Mooi, Phang Yeen Nung, Phang Yeen Aun and Phang Yeen Hung as the vendors of Nova Laboratories and our Company as the purchaser for the acquisition of the entire issued share capital of Nova Laboratories comprising 1,462,956 ordinary shares for a purchase consideration of RM23,640,998, satisfied by way of allotment and issuance of 236,409,980 new Shares in our Company at an issue price of RM0.10 per Share; and
- (iii) the Underwriting Agreement dated 8 June 2018 entered into between our Company and the Underwriter for the underwriting of up to 31,000,000 IPO Shares for an underwriting commission of 1.5% of the IPO Price.

### **14.6 GOVERNMENTAL LAW, DECREE, REGULATION OR OTHER REQUIREMENT**

There are no governmental laws, decree, regulation or other requirement which may affect the repatriation of capital and the remittance of profit by or to our Group.

### **14.7 PUBLIC TAKE-OVERS**

During the last financial year and the current financial year, there were no:

- (i) public take-over offers by third parties in respect of our Group's Shares; and
- (ii) public take-over offers by our Group in respect of other companies' securities.

## **14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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### **14.8 LETTERS OF CONSENT**

- (i) The written consent of the Principal Adviser, Sponsor, Underwriter, Placement Agent, Company Secretaries, Solicitors, Principal Banker, Share Registrar and Issuing House for the inclusion in this Prospectus of their names and all references herein in the form and context in which such names appear in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn.
- (ii) The written consent of the Auditors and Reporting Accountants for the inclusion in this Prospectus of its name, Reporting Accountants' Assurance Report on the Compilation of Pro Forma Financial Information, Accountants' Report and all references herein in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.
- (iii) The written consent of the Independent Market Researcher for the inclusion in this Prospectus of its name, the IMR Report and all references herein in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.
- (iv) The written consent of the Independent Valuer for the inclusion in this Prospectus of its name, the Valuation Certificate and all references herein in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

### **14.9 RESPONSIBILITY STATEMENT**

- (i) Our Directors, Promoters have seen and approved this Prospectus and they collectively and individually accept full responsibility for the accuracy of the information contained herein. Having made all reasonable enquiries, and that to the best of their knowledge and belief, they confirm there is no false or misleading statement or other facts which if omitted, would make any statement herein false or misleading.
- (ii) Kenanga IB, being our Principal Adviser, Sponsor, Underwriter and Placement Agent, acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning the IPO.

### **14.10 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at our Registered Office during the normal office hours for a period of 6 months from the date of this Prospectus:

- (i) the Constitution of our Company;
- (ii) copy of an OEM agreement as set out in Section 6.16;
- (iii) copy of the NWPP agreement as set out in Section 6.11.2;
- (iv) the Executive Summary of the Strategic Analysis of the Nutraceutical Industry in Malaysia and the IMR Report as set out in Section 7;
- (v) the Reporting Accountants' Assurance Report on the Compilation of Pro Forma Financial Information as at 31 December 2017 as set out in Section 11.1;
- (vi) the Accountants' Report as set out in Section 12;



**14. STATUTORY AND OTHER GENERAL INFORMATION** *(cont'd)*

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- (vii) the Valuation Report as prepared by the Independent Valuer and the Valuation Certificate as set out in Section 13;
- (viii) the material contracts as referred to in Sections 6.18.1;
- (ix) the letters of consent as referred to in Section 14.7;
- (x) the audited financial statements of Nova Laboratories for the Financial Years Under Review; and
- (xi) the audited financial statements of Nova Wellness from 27 July 2016 to 30 June 2017 and 6-months FPE 31 December 2017.

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## 15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE “DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE” ACCOMPANYING THE ELECTRONIC COPY OF OUR PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT MIH FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

### 15.1 OPENING AND CLOSING OF APPLICATIONS

OPENING OF THE APPLICATION PERIOD:- 10.00 A.M., 28 June 2018

CLOSING OF THE APPLICATION PERIOD:- 5.00 P.M., 9 July 2018

Applications for the IPO Shares will open and close at the dates stated above.

In the event there is any change to the dates stated above, we will advertise the notice of the change in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

**Late Applications will not be accepted.**

### 15.2 METHODS OF APPLICATIONS

#### 15.2.1 Application for our IPO Shares by the Malaysian Public and our eligible Directors, employees and persons who have contributed to the success of our Group

<u>Types of Application and category of investors</u>	<u>Application Method</u>
Applications by eligible Directors and employees and persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:-	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

## 15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE *(cont'd)*

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### 15.2.2 Application by selected investors via Placement

<u>Types of Application</u>	<u>Application Method</u>
Applications by:-	
Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.

## 15.3 ELIGIBILITY

### 15.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

**MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.**

**AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.**

### 15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:-

- (i) You must be one of the following:-
  - (a) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
  - (b) a corporation/institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors/trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
  - (c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (ii) You must not be a director or employee of MIH or an immediate family member of a director or employee of MIH; and
- (iii) You must submit Applications by using only one of the following methods:-
  - (a) White Application Form;

## 15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE *(cont'd)*

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- (b) Electronic Share Application; or
- (c) Internet Share Application.

### 15.3.3 Application by eligible Directors, employees and persons who have contributed to the success of our Group

The eligible Directors, employees and persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

Eligible Directors, employees and persons who have contributed to the success of our Group may request for a copy of the printed Prospectus from our Company at no cost and are given an option to have the printed Prospectus delivered to them free of charge, or to obtain the printed Prospectus from our Company, MIH, Kenanga IB, Participating organisations of Bursa Securities and Members of the Association of Banks in Malaysia or Malaysian Investment Banking Association.

## 15.4 PROCEDURES FOR APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.55 for each IPO Share.

Payment must be made out in favour of “**MIH SHARE ISSUE ACCOUNT NUMBER 592**” and crossed “**A/C PAYEE ONLY**” and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:-

- (i) despatched by **ORDINARY POST** in the official envelopes provided, to the following address:-

Malaysian Issuing House Sdn Bhd (258345-X)  
Level 6, Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan

or

P.O. Box 8269  
Pejabat Pos Kelana Jaya  
46785 Petaling Jaya  
Selangor Darul Ehsan

- (ii) **DELIVERED BY HAND AND DEPOSITED** in the Drop-in Boxes provided at the front portion of Malaysian Issuing House, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan,

so as to arrive not later than 5.00 p.m. on **9 July 2018**.

We, together with MIH, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to MIH.

## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE** *(cont'd)*

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### **15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS**

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

The exact procedures, terms and conditions for Electronic Share Application are set out on the ATM screens of the relevant Electronic Participating Financial Institutions.

### **15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS**

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CIMB Investment Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

### **15.7 AUTHORITY OF OUR BOARD AND MIH**

MIH, on the authority of our Board reserves the right to:--

- (i) reject Applications which:--
  - (a) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
  - (b) are illegible, incomplete or inaccurate; or
  - (c) are accompanied by an improperly drawn up, or improper form of, remittance; or
- (ii) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (iii) bank in all Application monies (including those from unsuccessful/partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 15.8 below.

## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE** *(cont'd)*

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If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of MIH at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

### **15.8 OVER / UNDER-SUBSCRIPTION**

In the event of over-subscription, the MIH will conduct a ballot in the manner approved by our Directors to determine the acceptance of Applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of allotting and allocating our IPO Shares to a reasonable number of applicants for the purpose of broadening the shareholding base of our Company and establishing a liquid and adequate market for our Shares.

The basis of allocation of shares and the balloting results in connection therewith will be furnished by the issuing house to the SC, Bursa Securities, all major Bahasa Malaysia and English newspapers as well as posted on the issuing house's website ([www.mih.com.my](http://www.mih.com.my)) within 1 business day after the balloting event

Pursuant to the Listing Requirements we are required to have a minimum of 25% of our Company's issued share capital to be held by at least 200 public shareholders holding not less than 100 Shares each upon Listing and completion of our IPO. We expect to achieve this at the point of Listing. In the event the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all Applications will be returned in full (without interest).

In the event of an under-subscription of our IPO Shares by the Malaysian Public and / or eligible Directors, employees and persons who have contributed to the success of our Group, subject to the underwriting arrangements and reallocation as set out in Section 3.3.2 of our Prospectus, any of the abovementioned IPO Shares not applied for will then be subscribed by the Underwriter based on the terms of the Underwriting Agreement.

### **15.9 UNSUCCESSFUL/PARTIALLY SUCCESSFUL APPLICANTS**

If you are unsuccessful/partially successful in your Application, your Application Monies (without interest) will be refunded to you in the following manner.

#### **15.9.1 For applications by way of Application Forms**

- (i) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend/distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary/registered post to your last address maintained with Bursa Depository (for partially successful applications) within ten (10) Market Days from the date of the final ballot at your own risk.
- (ii) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary/registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

## **15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE** *(cont'd)*

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- (iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by MIH as per items (i) and (ii) above (as the case may be).
- (iv) MIH reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within ten (10) Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend/distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

### **15.9.2 For applications by way of Electronic Share Application and Internet Share Application**

- (i) MIH shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within two (2) Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institutions or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) within two (2) Market Days after the receipt of confirmation from MIH.
- (ii) You may check your account on the 5<sup>th</sup> Market Day from the balloting date.
- (iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by MIH by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than ten (10) Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institutions will be informed of the unsuccessful or partially successful Applications within two (2) Market Days after the final balloting date. The Participating Financial Institutions will credit the Application monies or any part thereof (without interest) within two (2) Market Days after the receipt of confirmation from MIH.

### **15.10 SUCCESSFUL APPLICANTS**

If you are successful in your application:--

- (i) Our IPO Shares allotted to you will be credited into your CDS account.
- (ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

Pursuant to the conditions imposed by Bursa Securities as disclosed in Section 9.1 of this Prospectus, we will also make an announcement on the basis of allotment/ allocation of the IPO Shares on the website of Bursa Securities at least two (2) Market Days prior to the Listing date.

- (iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued/offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

**15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (cont'd)**

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- (iv) In accordance with Section 29 of the SICDA, all dealings in our IPO Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

**15.11 ENQUIRIES**

Enquiries in respect of the applications may be directed as follows:-

<b>Mode of application</b>		<b>Parties to direct the enquiries</b>
Application Form		MIH Enquiry Services Telephone at telephone no. 03-78418289
Electronic Application	Share	Participating Financial Institution
Internet Application	Share	Internet Participating Financial Institution and Authorised Financial Institution

You may also check the status of your Application by calling your respective ADA during office hours at the telephone number as set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities.

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