

## 8. RISK FACTORS

**NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP AND INVESTMENT CONSIDERATIONS SET OUT BELOW ALONG WITH OTHER INFORMATION CONTAINED HEREIN IN THIS PROSPECTUS BEFORE YOU MAKE YOUR INVESTMENT DECISION. IF YOU ARE IN ANY DOUBT AS TO THE INFORMATION CONTAINED IN THIS SECTION, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS.**

### 8.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

#### 8.1.1 We face competition from other industry players

The street lighting industry in Malaysia is a niche industry comprising a handful of local industry players. Industry players compete amongst each other in terms of their quality, reputation, experiences, price as well as technical know-how.

We face competition from both new and existing industry players. However, the barrier of entry to street lighting industry, especially the steel pole manufacturing business is high. This is because steel pole manufacturing is a capital expenditure intensive business, where high initial capital is required for the purchase of raw materials and for the set-up of manufacturing facilities. Therefore, industry players who can secure enough sales to sustain its business operations in the long term and be profitable will be able to sustain their business and remain competitive in the market.

Furthermore, we also face competition from other industry players that were recognised by JKR as approved supplier of street light poles in securing orders for public road projects.

The competition that we face from other industry players may impact our sales and profitability as we may be forced to be more price competitive to secure sales orders. We currently price our products based on the following minimum benchmark GP margin:

<b>Products</b>	<b>Minimum benchmark GP margin</b>
Standard street light poles	15.0%
Decorative light poles	25.0%
Specialty poles	30.0%
Outdoor lighting products	30.0%

We recorded the following GP margin for FYE 2017 and 2018:

<b>Products</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Standard street light poles	16.2%	15.8%
Decorative light poles	25.9%	25.6%
Specialty poles	43.9%	45.4%
Outdoor lighting products	47.0%	40.1%

The pricing method and GP margins recorded may not be sustainable if the level of competition for our manufacturing and trading segments increases in the future as we may be required to lower our minimum benchmark GP margin to remain competitive in the market.

**8. RISK FACTORS (Cont'd)**

Further, our products need to be of the required quality, and as such, we must strive to ensure that we are able to supply our products in the requirements and specifications required by our customers. It is also important that we can consistently deliver our products on time to our customers based on the agreed delivery date as well as method.

Hence, to remain competitive, our Group must continuously ensure that we meet the above requirements as failure to do so may negatively impact our Group's track record and industry reputation, leading to a loss of business and damage to our overall business performance.

**8.1.2 We are subject to fluctuations in the price of raw materials**

Our Group's raw materials mainly consist of steel plates and steel pipes. The following is the analysis of the cost of steel plates and steel pipes during the past 4 FYE 2015 to 2018:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
<b>Steel plates</b>				
Cost (RM'000)	9,585	5,836	13,931	7,913
Volume (MT)	4,391	2,898	5,293	2,505
Average cost per MT	2,183	2,014	2,632	3,159
<b>Steel pipes</b>				
Cost (RM'000)	572	1,460	1,320	2,086
Volume (MT)	238	659	456	600
Average cost per MT	2,403	2,216	2,895	3,475

For FYE 2017 and FYE 2018, our purchase of steel plates and steel pipes represented 37.6% and 23.4% of our total purchases, respectively. As these steel based materials are globally traded as commodity, they are subject to the price fluctuations or volatility. As such, we are subjected to the risk of any unfavourable fluctuation in the prices of these materials, which would lead to a rise in our overall cost of production.

The global steel prices are amongst others, subject to the demand and supply condition of steel in the global market, prices of raw materials for the production of steel such as coal and iron as well as the prevailing energy costs. As such, any changes in the conditions of any of the above factors may result in a rise in our cost of production. If we are unable to pass on this increase in our cost of production to our customers, we will bear the increasing costs and this may have a material impact on our financial results.

**8.1.3 The lack of long-term contracts may result in the fluctuation of our Group's performance**

Our Group's sales are mainly based on purchase orders and occasionally other forms of confirmed orders via email or fax. We have not entered into any long-term contracts with our customers. The lack of long-term contracts is mainly due to the nature of our business and prevailing customer practices which is subject to our customers' specific need and requirement for the steel poles, thus frequent production specification changes.

The absence of long-term contracts may result in the fluctuation of our Group's sales and overall business performance as the orders from our customers are generally on a project-to-project basis and on an as-needed basis. While our Group continuously seeks to maintain and strengthen our existing business relationships and establish relationship with new customers to expand our clientele base, any adverse economic conditions, or slowdowns in the

**8. RISK FACTORS (Cont'd)**

industries in which our customers operate, may negatively impact our sales, which will subsequently result in a decline in our financial performance.

**8.1.4 We are subject to risks on the maintenance or renewal of product certifications and registrations**

Our standard street light poles have been certified by SIRIM QAS International Sdn Bhd to be compliant with BS EN 40 – 5:2002. Based on this certification, our standard street light poles have been registered by JKR to be approved for use as street lighting. Please refer to Section 6.8.2 for details on these certification and registration.

Failure to renew or maintain the above certification and registration may result in us being unable to sell our standard street light poles. Standard street light poles contribute 32.2%, 28.3%, 28.5% and 20.8% of our total revenue for the FYE 2015 to 2018 respectively.

The renewal or maintenance of the above certification and registration is dependent on our ability to manufacture our standard street light poles within the required specifications. We cannot assure that in the future the relevant authorities will revoke or renew our certification and registration in a timely manner or at all.

**8.1.5 Our business is exposed to sudden and unexpected equipment failures, flood or fires and burglary, which may lead to interruptions in our business operations**

Our Group's manufacturing activities are dependent on various machinery and equipment that allow for shearing, bending, welding, as well as robotic cutting, amongst others. These machinery and equipment may, on occasion, be out of service because of unanticipated failures or damages sustained during normal business operations. Further, our manufacturing facilities are also subject to loss caused by unforeseen events such as floods, fires and burglary. Our assets which are prone to the burglary risk are mainly less bulky items such as steel pipes, accessories for our steel poles and office equipment.

These unexpected events may cause interruptions in, or prolonged suspension of, all or any part of our manufacturing activities. In addition, as our manufacturing activities are dependent on continuous supply of electricity, any major disruptions to the supply of electricity may result in interruptions in our manufacturing activities.

Any prolonged interruptions to our manufacturing activities will affect our production schedules and timely delivery of our products to our customers which may cause cancellation of purchase orders and may eventually impact our relationships with our customers. This could have an adverse impact on our business operations and financial performance. Further, the occurrence of unforeseen event such as floods, fire and burglary on our manufacturing facilities may result in an immediate financial loss.

We have not experienced any of the abovementioned incidences during the financial years under review. However, there can be no assurance that such incidences will not happen in the future which may result in interruptions to our manufacturing activities and adversely affect our business operation and financial performance.

**8. RISK FACTORS (Cont'd)****8.1.6 We are subject to operating cash flow and liquidity risk**

We extend credit terms to our customers whom we maintained a long term business relationship and make prompt payment to our suppliers (i.e. within the credit period granted by our supplier) as our Group's current business strategies. These strategies were adopted to ensure a good business relationship with our long term customers (by providing flexibility on payment collection) and suppliers (by making prompt payment to establish a good payment track record). We also stock up on inventories such as steel materials to ensure minimal disruption to our manufacturing operation and to limit our exposure in the increase in market prices for steel materials as a result of increase in steel market price. These strategies may require for additional working capital as it would affect our cashflows from operating activities.

The granting of more credit terms extension to our long term customers would lower the total collection from our customers. The lower collection from customers, together with our business strategies to make prompt payment to suppliers and stock up on inventories, may result in a net operating cash outflows position for our Group. Furthermore, we may also be subjected to liquidity risk if do not have the sufficient working capital to support these strategies. This could have an adverse impact on our business operations and financial performance.

Our operating cash flow for the financial years under review are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net cash from/(used in) operating activities	4,481	(1,403)	10,213	3,966

However, there can be no assurance that we will have sufficient working capital to support these strategies in the future which may have an adverse impact on our business operations and financial performance.

**8.1.7 We are subject to the risk of termination, renewal and exclusivity of authorised distributorships**

Our Group are currently the authorised distributor for GRUPPE, NIKKON and OSRAM brands of outdoor lighting products. These authorised distributorships provide us with technical support from the suppliers and competitive pricing for products sourced.

The revenue contribution of the abovementioned distributorships to our Group for the financial years under review are as follows:

	<b>% of Group's total revenue for trading segment</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Revenue contribution	35.4	39.2	38.2	51.2

We may not be able to receive technical support or enjoy competitive pricing for the products if our suppliers decided to terminate or not to renew the authorised distributorship. We may be required to purchase the outdoor lighting products of these brands from other authorised distributors, resulting in a higher cost of sales for our trading segment. Furthermore, we may not be able to source for the said outdoor lighting products in our desired quantity and hence restricting our capability to fulfil our customers' orders.

## 8. RISK FACTORS *(Cont'd)*

Apart from that, our authorised distributorships with GRUPPE, NIKKON and OSRAM are not exclusive. We may face an increased level of competition in the trading activities of these brands if our supplier decided to grant new authorised distributorships to other players in the outdoor lighting product market.

These could have an adverse impact on our business operations and financial performance for our Group's trading segment.

### 8.1.8 We are subject to risk of foreign exchange fluctuation and changes in foreign exchange administrative rules

We derive a portion of our sales from overseas customers that are denominated in foreign currency. In the event the RM appreciates against the foreign currency between time the sales were recorded and the payments were received from the overseas customers, our Group may register a loss on foreign exchange.

As stated in our business strategies under Section 6.19, we plan to expand our geographical presence in international markets such as Brunei, New Zealand and Sri Lanka. Such expansion may increase our exposure to foreign currency fluctuation risk.

Furthermore, based on the supplementary notice on Foreign Exchange Administration Rules published by Bank Negara Malaysia on 17 August 2018, exporters are only allowed to keep a maximum of 25.0% of its foreign currency proceed in its trade foreign currency account while the balance of the foreign currency proceed shall be converted into RM. There can be no assurance that any changes to the foreign exchange administrative rules by Bank Negara Malaysia or other relevant authority from time to time will not increase our exposure to foreign currency fluctuation risk.

We have not recorded any loss on foreign exchange during the financial years under review. However, there can be no assurance that there will not be any material fluctuation in foreign exchange in the future that could result in us recording a material loss on foreign exchange and adversely affect our financial performance.

### 8.1.9 We are dependent on our Promoters, key senior management and executive directors of our subsidiaries for continued success and the loss of their continued services may affect our business

Our business performance and prospects depend significantly on the abilities, skills, experience, competency and continuous efforts of our existing Directors and key senior management. Our Promoters who are also our Managing Director and Executive Director each has more than 19 years of experience in the street lighting industry and have extensive knowledge and insights on the industry. Together with our key senior management, they have built good business relationships with our customers and suppliers. Further, our business operations of Meslite and Max Lighting are spearheaded by Pee Kok Keong and Lee Yong Kong, who are the executive directors of Meslite and Max Lighting, respectively. Both of them possessed over 20 years of working experience in the manufacturing of decorative light poles and trading of outdoor lighting products.

The loss of our Promoters or any of our key senior management and executive director of our subsidiaries simultaneously or within a short span of time without suitable and timely replacement, or our inability to attract and retain qualified and competent personnel or our inability to integrate new personnel, could materially and adversely affect our business operation and financial performance. In addition, the loss of any of our Promoters or key senior management and executive director of our subsidiaries may lead to a cessation of business relationship with our customers.

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**8. RISK FACTORS (Cont'd)**

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**8.1.10 We may be subject to warranty claims and product liability for product defects**

For the steel pole products that we manufacture, we typically provide a warranty against manufacturing defects for a period of 1 year. If there is a manufacturing defect during the warranty period, our customers may require us to replace the defective products and bear the re-installation cost (for defective poles that already have been installed). We are also liable for any damages caused by defective poles that have already been installed.

Any substantial increase in warranty claims and product liability against our products will have an adverse impact on our business and operating results. We have not recorded any material warranty claims or product liability during the financial years under review. However, there is no assurance that there will be no material claims in the future.

**8.1.11 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations**

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities.

Our Group currently has the following insurance policy:

- (i) fire insurance policy with a sum insured amounting to RM8.60 million that covers our Main Manufacturing Facility as well as the machinery and equipment and stock located within the facility;
- (ii) burglary insurance policy with a sum insured amounting to RM0.05 million that covers the office equipment of our Main Manufacturing Facility;
- (iii) fire insurance policy with a sum insured amounting to RM0.52 million that covers Meslite's Factory; and
- (iv) burglary insurance policy with a sum insured amounting to RM0.01 million that covers the office equipment in Meslite's Factory.

However, our insurance may not be adequate to cover all losses or liabilities that may be incurred in our business operations. For example, while we are insured against losses resulting from fires and burglary, we do not maintain insurance against losses because of natural disasters. Furthermore, Meslite's Factory currently does not comply with its approved building plan (in terms of the setback requirement of 10 feet). We may not be entitled for insurance claims in the event of a fire, pending the implementation of the rectification plan as disclosed in Section 6.17.

Moreover, we will be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of a similar type and/or amount desired at reasonable rates. If we were to incur a significant liability for which we are not fully insured, it could have a material adverse effect on our business operations and financial performance.

**8.1.12 Our expansion will result in higher operating costs as well as depreciation charges, and we cannot guarantee that our business will grow as planned**

We have allocated RM13.00 million from our Public Issue proceeds to finance the capital expenditure for the planned expansion of our Main Manufacturing Facility. Please refer to Section 4.8.1(a) for details of our proposed capital expenditure from the Public Issue proceeds.

**8. RISK FACTORS (Cont'd)**

Following our expansion plan, additional operating costs as well as depreciation charges will be incurred. If our Group fails to generate sufficient revenue to cover such additional costs and effectively grow our business, our financial performance may be adversely affected.

**8.1.13 Our financial performance may be affected by adverse changes in interest rates**

Our outstanding borrowings as at 31 December 2018 amounted to approximately RM17.62 million, comprising mainly term loans, finance lease liabilities and bankers' acceptance. This translates to a gearing level of 0.48 times, based on our pro forma shareholders' equity before our Public Issue of RM36.42 million. Assuming our Public Issue and utilisation of proceeds had been completed on 31 December 2018, our pro forma gearing would be reduced to 0.23 times.

In view that interest charged on the bank borrowings is dependent on prevailing interest rates, any significant increase in interest rates will significantly increase our interest expense and hence will have a material adverse effect on our profitability. In addition, the agreements for credit facilities may contain covenants which may limit our future operating and financing flexibility such as restrictions in future borrowings, creation of new securities and disposal of its capital assets. A breach of such covenants may result in the termination and/or enforcement of securities granted for the relevant credit facility.

There can be no assurance that our performance would remain favourable if there is any breach in agreements for credit facility, resulting in a termination and/or enforcement of securities.

**8.1.14 We may be subject to the risk of raw material defects**

We purchase raw materials such as steel plates and steel pipes from third party suppliers for our manufacturing operations. We visually inspect the raw materials upon receipt of the materials procured, and do not accept these raw materials in the case there are surface defects (such as dents and scratches) and the raw materials delivered are not in accordance to the specifications we ordered (in terms of volume, length and dimensions). However, our visual inspection of raw materials may not be able to detect defects such as uneven surfaces. In addition, it may also be difficult to ascertain, at times, if any damage was done before or after the materials are delivered to our premise.

As such, in the event there are defected steel materials, and we are unable to replace these materials, we might not be able to utilise the said steel materials for the original intended use and we may need to repurchase the steel materials. This may result in a higher cost of sales and may interrupt our manufacturing operations.

Furthermore, if we are unable to find alternative use for the steel materials with physical defects, we may need to provide for allowance of obsolete inventories that may impact our overall financial performance.

The allowance of obsolete inventories provided by us for the financial years under review are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Allowance for obsolete inventories	-	-	245	-
Reversal of allowance for obsolete inventories	-	-	-	(245)

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## **8. RISK FACTORS (Cont'd)**

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The allowance of obsolete inventories recorded in FYE 2017 relates to the defected steel plates with uneven surface that we purchased from one of our supplier. The said allowance for obsolete inventories was reversed in FYE 2018 as we found other usage for these steel plates by cutting it into smaller pieces to be used as services door and adjoining part of smaller steel poles.

### **8.2 RISK RELATING TO OUR INDUSTRY**

#### **8.2.1 We rely on foreign workers in our operations**

We rely on foreign workers in our business operations. As at the LPD, we have a total workforce of 160 employees, out of which 85 or 53.1% are foreign workers. Our foreign workers are primarily from Myanmar and Vietnam.

As the standard of living in Malaysia improves over time, we have found it increasingly difficult to hire local production workers for our manufacturing operations and this difficulty may increase in the future. In addition, the costs of foreign labour may continue to increase in the future. Besides, any increase in levy rate for foreign workers will increase our cost for labour which consequently may increase our cost of sales and decrease our profit margins if we are unable to pass such cost increases to our customers.

Currently, we obtain 1-year working permits for our foreign workers, which are renewed annually. In the case of any changes to visa policies for foreign workers in Malaysia, we may face difficulties to maintain sufficient foreign labour workforce, which would have a material and adverse effect on our business operation and financial condition.

#### **8.2.2 We are exposed to inherent risks in the construction industry**

Our products are normally used in the infrastructure, residential and commercial construction sub-sectors. In general, the construction industry is largely influenced by several factors such as inflation, political stability as well as demand and supply factors for new public facilities. Any downturn in the construction industry whether in Malaysia or other markets in which we operate may have an adverse effect on our performance.

Any slowdown in the construction industry may lead to a decrease in demand for steel poles. This would negatively affect the overall demand for our Group's products, thereby affecting our Group's financial performance.

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## **8. RISK FACTORS (Cont'd)**

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### **8.3 RISK RELATING TO THE INVESTMENT IN OUR SHARES**

#### **8.3.1 There has been no prior market for our Shares**

Prior to our Listing, there was no public trading for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration several factors including but not limited to our historical earnings, our competitive strengths, our business strategies and prospects as well as our financial and operating history. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market upon or after our Listing or that an active market for our Shares will develop and continue upon or after our Listing.

The price at which our Shares will trade on the ACE Market may be influenced by several factors including, amongst others, the depth and liquidity of the market for our Shares, investors' perceptions of our Group, market and economic conditions.

#### **8.3.2 Our Listing is exposed to the risk that it may be aborted or delayed**

Our Listing is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:

- (a) The identified investors fail to subscribe for the portion of our IPO Shares;
- (b) Our Underwriter in exercising its rights pursuant to the Underwriting Agreement discharges itself from its obligations therein; and
- (c) We are unable to meet the public shareholding spread requirement as determined by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

In this respect, we will exercise our best endeavours to comply with the various regulatory requirements, including, amongst others, the public shareholding spread requirement in paragraph (c) above for our successful Listing. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or non-implementation of our Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.0% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares can only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time.

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**8. RISK FACTORS (Cont'd)**

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**8.3.3 The trading price and volume of our Shares following our Listing may be volatile**

The trading price and volume of our Shares could be subjected to fluctuations in response to various factors, some of which are not within our control and may be unrelated or disproportionate to our operating results. These factors may include variations in the results of our business operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our listed shares.

**8.3.4 Our ability to pay dividend on our Shares is dependent on the flow of dividends from our subsidiaries**

Our Company is an investment holding company and we conduct substantially all of our operations through our subsidiaries. Accordingly, our income will be derived mainly from dividends received from our subsidiaries. Hence, our ability to pay future dividends is largely dependent on the performance of our subsidiaries. The ability of our subsidiaries to pay dividends to us will be depend upon their financial performance and availability of their distributable reserves, capital requirements for their operational needs and debt servicing commitment.

There can be no assurance that we would be able to pay future dividends on our Shares, as a result of the factors stated above. Furthermore, if we do not pay dividends or pay dividends at level lower than that anticipated by investors, the trading price of our Shares may be negatively affected and the value of any investment in our Shares might be reduced.

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**8. RISK FACTORS (Cont'd)**

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**8.4 OTHER RISKS**

**8.4.1 Our future fund-raising exercise may result in dilution of shareholdings**

Our capital requirements are dependent on, amongst others, our business, the availability of our resources for attracting, maintaining and enlarging our customer base and the need to maintain and expand our product offering. Thus, we may need additional capital expenditure for future expansions and/or investments. An issue of new Shares or other securities to raise funds will dilute shareholders' equity interest and may, in case of a rights issue, require additional investment by shareholders.

**8.4.2 Forward-looking/prospective statements in this Prospectus may not be achievable**

Certain statements in this Prospectus are based on historical data which may not be reflective of future results and others are forward-looking in nature that are based on assumptions and subject to uncertainties and contingencies which may or may not be achievable. Whether such statements would ultimately prove to be accurate depends upon a variety of factors that may affect our businesses and operations, and such forward-looking statements also involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, plans, performances and achievements, expressed or implied, by such prospective statements.

Although we believe that the expectations reflected in such future statements are reasonable at this time, there can be no assurance that such prospective statements or expectations will prove to be correct in the future. Any deviation from the expectations may have a material adverse effect on our business and financial performance.

The above is not an exhaustive list of challenges we are currently facing or that may develop in the future. Additional risks whether known or unknown, may in the future have a material adverse effect on us and/or our Shares.

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## 9. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS

### 9.1 RELATED PARTY TRANSACTIONS AND OTHER TRANSACTIONS

#### 9.1.1 Related party transactions

Save as disclosed below, there was no transaction, existing and/or potential, entered or to be entered by our Group during FYE 2015 to 2018 which involve the interests, direct or indirect, of our Directors, substantial shareholders, and/or persons connected with them:

- (a) During FYE 2015, Mestron Engineering disposed 2 motor vehicles to our Promoters, as follows:

Promoters	Cash consideration	NBV as at 31 December 2015	Gain / (Loss) on disposal
	RM'000	RM'000	RM'000
Por Teong Eng	100	64	36
Loon Chin Seng	200	77	123
<b>Total</b>	<b>300</b>	<b>141</b>	<b>159</b>

Percentage to the Group's NA  
as at 31 December 2015

2.2%

The cash consideration was based on the prevailing market value of the motor vehicles.

- (b) Acquisition of 70.0% equity interest in Max Lighting and 60.0% equity interest in Meslite by Mestron Engineering which was completed on 16 March 2018 and 3 April 2018 for a cash consideration of RM140,000 and RM300,000 respectively, as part of its internal reorganisation exercise. Mestron Engineering acquired the equity interest in Max Lighting and Meslite from the following vendors based on the companies' respective share capital:

Vendor	Max Lighting		Meslite	
	Equity interest	Amount	Equity interest	Amount
	%	RM	%	RM
Por Teong Eng	-	-	30.0	150,000
Loon Chin Seng	40.0	80,000	30.0	150,000
Lee Chun Heng <sup>(1)</sup>	10.0	20,000	-	-
Loon Chin Meng <sup>(2)</sup>	20.0	40,000	-	-
<b>Total</b>	<b>70.0</b>	<b>140,000</b>	<b>60.0</b>	<b>300,000</b>

Percentage to the Group's NA <sup>(3)</sup>

0.4%

0.8%

#### Notes:

- (1) Lee Chun Heng is the Head of Sales and Marketing of our Group.  
(2) Loon Chin Meng is the brother of our Executive Director, Loon Chin Seng.  
(3) Based on our Group's NA as at 31 December 2018.

**9. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (Cont'd)**

- (c) 2 sale and purchase agreements dated 4 June 2018 in relation to the disposal of the following properties by Mestron Engineering to our Promoters:

<b>Properties</b>	<b>Consideration</b>	<b>%<sup>(1)</sup></b>	<b>NBV as at 30</b>	<b>Gain/ (Loss)</b>
	<b>RM'000</b>		<b>June 2018</b>	<b>on disposal</b>
			<b>RM'000</b>	<b>RM'000</b>
Agricultural Land A <sup>(2)(3)</sup>	690	1.9	732	(42)
Agricultural Land B <sup>(2)(3)</sup>	760	2.1	747	13

**Notes:**

- (1) Calculated based on our Group's NA as at 31 December 2018.  
(2) With a single storey hostel building erected.  
(3) Jointly acquired by our Promoters for equal percentage of ownership.

The said lands were disposed on 7 November 2018 as we have no immediate plan to utilise the lands and we are not able to utilise the lands for our business operations as the land use is currently restricted solely to agricultural activities.

The cash consideration was arrived at based on the prevailing market price and has been fully satisfied on 1 October 2018.

Save as disclosed below and the Acquisition of Mestron Engineering as set out in Section 6.2, subsequent to 31 December 2018 and up to the LPD, there was no transaction, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them:

- (a) Acquisition of 40.0% equity interest in Meslite and 30.0% equity interest in Max Lighting by Mestron Engineering which was completed on 25 April 2019 for a cash consideration of RM134,907 and RM358,320 respectively. Mestron Engineering acquired the equity interest in Max Lighting and Meslite from the following vendors based on the companies' respective share capital:

<b>Vendor</b>	<b>Max Lighting</b>		<b>Meslite</b>	
	<b>Equity interest</b>	<b>Amount</b>	<b>Equity interest</b>	<b>Amount</b>
	<b>%</b>	<b>RM</b>	<b>%</b>	<b>RM</b>
Pee Kok Keong <sup>(1)</sup>	-	-	40.0	358,320
Lee Yong Kong <sup>(2)</sup>	30.0	134,907	-	-
<b>Total</b>	<b>30.0</b>	<b>134,907</b>	<b>40.0</b>	<b>358,320</b>
<i>Percentage to the Group's NA <sup>(3)</sup></i>		<i>0.4%</i>		<i>1.0%</i>

**Notes:**

- (1) Pee Kok Keong is the Director of Meslite.  
(2) Lee Yong Kong is the Director of Max Lighting.  
(3) Based on our Group's NA as at 31 December 2018.

## **9. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (Cont'd)**

The above transactions have been carried out on an arm's length basis.

Moving forward, we have established the following procedures for all related party transactions to ensure the transactions (if any) are undertaken on arm's length basis and on normal commercial terms not more favourable to the related parties than those generally available to the public:

- (a) We will procure for at least 2 other quotations from third parties for identical products and/or services as comparison, wherever possible, to determine whether the price and terms offered for any products and/or services by the related parties are fair, reasonable and similar to those offered by third parties; or
- (b) If quotation from third parties for the identical products and/or services cannot be obtained, the transaction price will be determined by our Group based on terms offered by third parties for substantially similar type of products and/or services to ensure that the related party transactions are fair and reasonable.

To mitigate any potential conflict of interest, our Board shall seek the approval from our non-interested shareholders for a mandate to enter into such transactions at the general meeting of our Company.

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 to them, 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.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Nomination Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

### **9.1.2 Other transactions**

#### **(a) Transactions that are unusual in their nature or conditions**

Our Directors have confirmed that there were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which we or any of our subsidiaries were a party to for the past 4 FYE 2015 to 2018.

#### **(b) Outstanding loans (including guarantees of any kind)**

Save as disclosed below, there were no outstanding loans (including guarantees of any kind) made to/by us to or for the benefit of any related party for the past 4 FYE 2015 to 2018:

**9. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (Cont'd)****(i) Amount due from Directors**

The following non-trade related party balances were recorded as other receivables for the past 4 FYE 2015 to 2018:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Amount due from Director				
- Por Teong Eng	55	166	179	-
- Pee Kok Keong <sup>(1)</sup>	-	114	104	-
<b>Total</b>	<b>55</b>	<b>280</b>	<b>283</b>	<b>-</b>

These amounts relate to the advances extended by Meslite to Por Teong Eng and Pee Kok Keong (Director and shareholder of Meslite) for personal use. The advances are unsecured, payable on demand, do not carry any interest and were made in accordance to the Act. As at the LPD, this amount due from Director has been settled in full.

**(ii) Amount due to Directors**

The following non-trade related party balances were recorded as current liabilities for the past 4 FYE 2015 to 2018:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Current liabilities</b>				
Amount due to Directors	2,959	2,899	1,799	15

These amounts relate to advances made and payment on behalf by our Promoters (who are also directors of Mestron Engineering) to Mestron Engineering for working capital requirement. These amounts are unsecured, payable on demand, do not carry any interest, and were classified as a short term obligation. As at the LPD, the amount due to Directors is approximately RM0.02 million.

**(iii) Guarantees**

Our Promoters and Pee Kok Keong, Director of Meslite, had extended guarantees for banking facilities extended to our Group as at 31 December 2018. We will apply to the respective financial institutions to discharge the said guarantees after the Listing.

These non-trade related party balances under item (i) and (ii) above are denominated in RM and were not made on an arm's length basis as it does not carry any interest.

Moving forward, our Group will not provide any non-trade related advances to our Directors.

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**9. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (Cont'd)**

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**(c) Transactions entered into with M&A Securities**

Save as disclosed below, we have not entered into any transactions with M&A Securities who is the Adviser, Sponsor, Underwriter and Placement Agent for our Listing:

- (i) Agreement dated 4 April 2018 between Mestron Engineering and M&A Securities for the appointment of M&A Securities as Adviser, Sponsor and Placement Agent for our Listing; and
- (ii) Underwriting agreement dated 30 April 2019 entered between our Company and M&A Securities for the underwriting of 48,250,000 Issue Shares.

**9.2 CONFLICTS OF INTEREST****9.2.1 Interest in similar business and in businesses of our customers and our suppliers**

As at the LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations carrying on a similar or related trade or the customers and/or suppliers of our Group.

To mitigate any possible conflict of interest situation, our Directors will declare to our Nomination Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Further details on steps that our Nomination Committee will take if such Director's involvement gives rise to a potential conflict of interest with our Group's business are set out in Section 5.2.3.

**9.2.2 Declarations of conflict of interests by our advisers**

- (a) M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing;
- (b) Ben & Partners has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing;
- (c) Grant Thornton Malaysia has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and
- (d) PROVIDENCE has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.



## 10. FINANCIAL INFORMATION

### 10.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated on 18 May 2018 to facilitate the Listing. The historical financial information of our Group for FYE 2015 to 2018 is therefore presented based on the historical audited combined financial statements of our Group.

The historical audited combined financial statements throughout FYE 2015 to 2018 have been prepared in accordance with MFRS and IFRS. The selected financial information included in this Prospectus is not intended to predict our financial position, results and cash flows.

#### 10.1.1 Historical audited combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for FYE 2015 to 2018 which have been extracted from the Accountants' Report in Section 11. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 10.2 and the Accountants' Report set out in Section 11.

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	40,540	44,374	60,747	63,680
Cost of sales	(34,163)	(31,947)	(40,552)	(42,768)
<b>GP</b>	<b>6,377</b>	<b>12,427</b>	<b>20,195</b>	<b>20,912</b>
Other operating income	833	492	397	628
Selling and distribution expenses	(428)	(584)	(868)	(936)
Administrative expenses	(4,115)	(4,725)	(6,684)	(7,059)
Other operating expenses	(53)	(55)	(638)	(270)
Finance costs	(247)	(394)	(902)	(1,072)
<b>PBT</b>	<b>2,367</b>	<b>7,161</b>	<b>11,500</b>	<b>12,202</b>
Tax expense	(191)	(1,881)	(2,962)	(2,896)
<b>PAT</b>	<b>2,176</b>	<b>5,280</b>	<b>8,538</b>	<b>9,307</b>
Other comprehensive income	-	-	-	-
<b>Total comprehensive income</b>	<b>2,176</b>	<b>5,280</b>	<b>8,538</b>	<b>9,307</b>
EBIT <sup>(1)</sup>	2,611	7,549	12,381	13,275
EBITDA <sup>(1)</sup>	3,367	8,711	13,785	14,763
GP margin (%)	15.7	28.0	33.2	32.8
EBITDA margin (%)	8.3	19.6	22.7	23.2
PBT margin (%) <sup>(2)</sup>	5.8	16.1	18.9	19.2
PAT margin (%) <sup>(3)</sup>	5.4	11.9	14.1	14.6
Basic EPS (sen) <sup>(4)</sup>	0.34	0.84	1.35	1.47
Diluted EPS (sen) <sup>(5)</sup>	0.28	0.67	1.08	1.18

**10. FINANCIAL INFORMATION (Cont'd)****Notes:**

(1) EBIT and EBITDA are calculated as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
PAT	2,176	5,280	8,538	9,307
Less:				
Interest income	(3)	(6)	(21)	-
Add:				
Finance costs	247	394	902	1,072
Taxation	191	1,881	2,962	2,896
<b>EBIT</b>	<b>2,611</b>	<b>7,549</b>	<b>12,381</b>	<b>13,275</b>
Add:				
Depreciation and amortisation	756	1,162	1,404	1,488
<b>EBITDA</b>	<b>3,367</b>	<b>8,711</b>	<b>13,785</b>	<b>14,763</b>

(2) Calculated based on PBT divided by revenue.

(3) Calculated based on PAT divided by revenue.

(4) Calculated based on PAT divided by share capital of 632,000,000 Shares before the IPO.

(5) Calculated based on PAT divided by share capital of 790,000,000 Shares after the IPO.

**10.1.2 Historical audited combined statements of financial position**

The following table sets out the historical audited combined statements of financial position of our Group as at 31 December 2015, 2016, 2017 and 2018, which have been extracted from the Accountants' Report set out in Section 11. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 10.2 and the Accountants' Report set out in Section 11.

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	15,972	19,175	29,420	23,136
Investment properties	-	-	-	1,355
<b>Total non-current assets</b>	<b>15,972</b>	<b>19,175</b>	<b>29,420</b>	<b>24,491</b>
<b>Current assets</b>				
Inventories	1,981	2,596	9,035	9,707
Trade receivables	11,491	16,910	18,273	22,545
Other receivables	965	3,923	1,937	3,016
Tax recoverable	706	42	37	52
Cash and bank balances	1,034	2,170	5,333	3,931
<b>Total current assets</b>	<b>16,177</b>	<b>25,641</b>	<b>34,615</b>	<b>39,251</b>
Asset held-for-sale	-	-	-	4,377
<b>TOTAL ASSETS</b>	<b>32,149</b>	<b>44,816</b>	<b>64,035</b>	<b>68,119</b>

**10. FINANCIAL INFORMATION (Cont'd)**

	<b>Audited</b>			
	<b>As at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	2,600	3,200	3,200	3,200
Retained earnings	11,006	16,287	24,324	33,631
<b>Total equity</b>	<b>13,606</b>	<b>19,487</b>	<b>27,524</b>	<b>36,831</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	4,087	9,175	15,374	14,934
Finance lease liabilities	569	1,222	1,089	752
Deferred tax liabilities	160	469	291	298
<b>Total non-current liabilities</b>	<b>4,816</b>	<b>10,866</b>	<b>16,754</b>	<b>15,984</b>
<b>Current liabilities</b>				
Trade payables	7,349	9,193	12,367	11,287
Other payables and accruals	2,641	269	1,008	1,945
Amount due to Directors	2,959	2,899	1,799	15
Borrowings	436	1,110	1,652	1,140
Finance lease liabilities	321	663	635	797
Dividend payable	-	-	500	-
Tax payable	21	329	1,796	120
<b>Total current liabilities</b>	<b>13,727</b>	<b>14,463</b>	<b>19,757</b>	<b>15,304</b>
<b>TOTAL LIABILITIES</b>	<b>18,543</b>	<b>25,329</b>	<b>36,511</b>	<b>31,288</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>32,149</b>	<b>44,816</b>	<b>64,035</b>	<b>68,119</b>

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**10. FINANCIAL INFORMATION (Cont'd)****10.1.3 Historical audited combined statements of cash flows**

The following table sets out the audited combined statements of cash flows for FYE 2015 to 2018, which have been extracted from the Accountants' Report set out in Section 11. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 10.2 and the Accountants' Report set out in Section 11.

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating</b>				
Profit before tax	<b>2,367</b>	<b>7,161</b>	<b>11,500</b>	<b>12,203</b>
Adjustment for:				
Allowance for obsolete inventories	-	-	245	-
Impairment loss on receivables	-	-	385	126
Amortisation of investment property	-	-	-	18
Bad debts recovered	(22)	(7)	-	-
Bad debts written off	16	44	-	39
Depreciation of property, plant and equipment	756	1,162	1,404	1,470
Interest expenses	247	394	902	1,072
Interest income	(3)	(6)	(21)	-
Gain on disposal of property, plant and equipment	(408)	-	(22)	(51)
Reversal of impairment loss on receivables	(56)	(44)	-	(257)
Reversal of allowance for obsolete inventories	-	-	-	(245)
<b>Operating profit before working capital changes</b>	<b>2,897</b>	<b>8,704</b>	<b>14,393</b>	<b>14,375</b>
Changes in working capital:				
Inventories	(180)	(615)	(6,683)	(427)
Receivables	(1,900)	(8,363)	259	(5,259)
Payables	4,526	(529)	3,924	(142)
<b>Cash generated from/(used in) operations</b>	<b>5,343</b>	<b>(803)</b>	<b>11,893</b>	<b>8,547</b>
Tax paid	(913)	(992)	(1,809)	(4,608)
Tax refunded	50	392	129	27
<b>Net cash from/(used in) operating activities</b>	<b>4,481</b>	<b>(1,403)</b>	<b>10,213</b>	<b>3,966</b>
<b>Cash flow for investing activities</b>				
Purchase of property, plant and equipment	(7,144)	(2,909)	(11,108)	(1,785)
Proceeds from disposal of property, plant and equipment	3,616	-	22	1,619
<b>Net cash used in investing activities</b>	<b>(3,528)</b>	<b>(2,909)</b>	<b>(11,086)</b>	<b>(166)</b>

**10. FINANCIAL INFORMATION (Cont'd)**

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flow for financing activities</b>				
Repayment of finance lease liabilities	(234)	(460)	(703)	(892)
Dividend paid	-	-	-	(500)
Advances from/(Repayment to) Directors	317	(60)	(1,100)	(1,785)
Drawdown of borrowings	1,914	8,061	7,940	5,089
Repayment of borrowings	(3,383)	(2,299)	(1,199)	(6,042)
Interest paid	(247)	(394)	(902)	(1,072)
Issuance of shares	1,500	600	-	*
<b>Net cash (used in)/from financing activities</b>	<b>(133)</b>	<b>5,448</b>	<b>4,036</b>	<b>(5,202)</b>
<b>Cash and cash equivalents</b>				
<b>Net change</b>	<b>820</b>	<b>1,136</b>	<b>3,163</b>	<b>(1,402)</b>
At the beginning of the financial years	214	1,034	2,170	5,333
<b>At the end of the financial years</b>	<b>1,034</b>	<b>2,170</b>	<b>5,333</b>	<b>3,931</b>

**Note:**

- \* Negligible, relates to the initial issuance of 2 Shares for RM2 on the incorporation of Mestron Holdings on 18 May 2018

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**10. FINANCIAL INFORMATION (Cont'd)**

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**10.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and segmental analysis of our audited results for FYE 2015 to 2018 should be read in conjunction with the Accountants' Report included in Section 11.

**10.2.1 Overview of our operations****(a) Principal activities**

Our Group is principally engaged in the following business segments:

- (i) Manufacturing of steel poles comprising standard street light pole, decorative light pole and specialty poles; and
- (ii) Trading of outdoor lighting products.

Please refer to Section 6 for detailed information on our business segments.

**(b) Revenue**

Our revenue was derived from the sale of goods namely, steel poles and outdoor lighting products.

Revenue from sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised upon delivery of goods and customer acceptance, if any, when the significant risks and rewards of ownership of the goods has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. As such, our revenue is only recognised upon the order delivery and issuance of a delivery order to our customer.

**(c) Cost of sales**

The cost of sales attributable to the manufacturing segment comprise raw materials (such as steel plates and pipes) and supplies (such as foundation bolts and nuts, junction boxes and concrete footing), direct labour and other direct costs (such as anti-corrosive galvanising and powder coating costs, operation and maintenance costs, rentals for machinery and equipment, transportation costs and customs duties).

Meanwhile, the cost of sales attributable to the trading segment comprises supplies of outdoor lighting products.

**(d) Other operating income**

Other operating income includes realised gains on foreign currency exchange, gains on disposal of property, plant and equipment, reversal of allowance for doubtful debts, bad debts recovered, interest income and miscellaneous income.

**(e) Selling and distribution expenses**

Selling and distribution expenses comprise costs directly attributable to the marketing and sales functions. The key cost components include sales commissions, travelling expenses and marketing expenses.

**10. FINANCIAL INFORMATION (Cont'd)****(f) Administrative expenses**

Administrative expenses comprise overheads incurred to maintain the overall operations for our Group. The key cost components include staff costs, repair and maintenance costs, administrative expenses and professional fees.

**(g) Other operating expenses**

Other operating expenses relate to expenses incurred which are not directly related to operating activities such as allowance for doubtful debts, allowance for obsolete inventories and other miscellaneous expenses.

**(h) Finance costs**

Finance costs comprise mainly the interest expenses on borrowings of our Group.

**(i) Recent developments**

There were no significant events subsequent to our audited combined financial statements for FYE 2018.

**(j) Exceptional and extraordinary items and audit qualifications**

There were no exceptional or extraordinary items during FYE 2015 to 2018. In addition, our audited financial statements for the financial years under review were not subject to any audit qualifications.

**(k) Significant factors affecting our business**

Section 8 details a number of risk factors relating to our business and the industry in which we operate in. Some of these risk factors have an impact on our revenue and financial performance. The main factors which affect revenues and profits include but are not limited to the following:

**(i) Exposure to fluctuations in the global steel prices**

The price of our raw materials fluctuates according to global steel prices, which are subject to the demand and supply conditions of steel in the global market, prices of raw materials for the production of steel such as coal and iron and prevailing energy costs.

Any increase in the global steel prices and price of our raw materials will increase our cost of sales which may affect our profitability, as well as our carrying cost for maintaining our inventories.

**(ii) Lack of long-term contracts**

Our sales are mainly derived from purchase orders and occasionally other forms of confirmed orders due to the nature of our business and prevailing customers' practices. Any adverse economic conditions, or slowdowns in the industries in which our customer operate in, may negatively impact our sales.

**(iii) Products certifications and registration**

Our standard street light pole is one of the key revenue contributors of our Group, contributing 20.8% to 32.2% of our Group's total revenue for the financial years under review.

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**10. FINANCIAL INFORMATION (Cont'd)**

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Our standard street light poles have been certified by SIRIM QAS International Sdn Bhd to be compliant with BS EN 40 – 5:2002 which is the standard required by JKR for street light poles to be used on public roads. If we fail to renew or maintain the certification and registration, our standard street light poles will not be allowed to be used on public roads, which will then materially and adversely affect our financial performance.

**(iv) Interruptions in our business operations**

Our manufacturing activities are heavily dependent on our machinery and equipment such as press brake machine, cutting machine, profiling machine and welding machine, amongst others. These machinery and equipment may, on occasion, be out of service as a result of unanticipated maintenance required and failures or damages sustained during operations. Further, our manufacturing plant is also subject to unexpected events such as electricity outage, floods and fires.

Any prolonged interruptions in our business operations due to the above, will result in delay in our production schedules and timely delivery of our products to our customers, which will then materially and adversely affect our financial performance.

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**10. FINANCIAL INFORMATION (Cont'd)****10.2.2 Review of operations****(a) Revenue**

Our revenue for the financial years under review was derived from the sale of products under both our manufacturing and trading segments. Our customers typically include M&E contractors, property development companies, electrical product distributors as well as specialised contractors in the telecommunication, oil and gas, and mining industries.

Our sales are mainly derived locally and denominated in RM, while our sales derived from overseas markets are denominated in AUD, SGD, USD, NZD and BND. For the financial years under review, our local sales amounted to 83.1% to 92.7% of our total revenue.

The revenue segmentation of our Group by business segment and geographical locations for financial years under review, are set out below:

**(i) Analysis of revenue by business segments**

The following table sets out our revenue by business segments for the financial years under review:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
<b>Manufacturing</b>								
Standard street light poles	13,068	32.2	12,541	28.3	17,313	28.5	13,276	20.8
Decorative light poles	9,503	23.4	9,757	22.0	12,830	21.1	14,565	22.9
Specialty poles	7,277	18.0	9,777	22.0	9,908	16.3	13,292	20.9
<b>Sub-total</b>	<b>29,848</b>	<b>73.6</b>	<b>32,075</b>	<b>72.3</b>	<b>40,051</b>	<b>65.9</b>	<b>41,133</b>	<b>64.6</b>
<b>Trading</b>								
Outdoor lighting products	10,692	26.4	12,299	27.7	20,696	34.1	22,547	35.4
<b>Total</b>	<b>40,540</b>	<b>100.0</b>	<b>44,374</b>	<b>100.0</b>	<b>60,747</b>	<b>100.0</b>	<b>63,680</b>	<b>100.0</b>

Our revenue was mainly derived from the manufacturing segment, representing between 64.6% to 73.6% of our total revenue for the financial years under review. Our two largest product sub-segments under the manufacturing segment are standard street light poles and decorative light poles.

Our revenue increased from RM40.54 million in FYE 2015 to RM63.68 million in FYE 2018 despite the decrease in revenue from standard street light poles from RM17.31 million in FYE 2017 to RM13.28 million in FYE 2018. The decrease in revenue from standard street light poles was due to lower demand resulting from the slowdown in construction of township development projects and infrastructure projects during the FYE 2018.

Our revenues from the manufacturing and trading segment in the financial years under review were mainly driven by:

- continuous Government expenditure on constructing infrastructure such as roads and highways, as highlighted in Section 7 of this Prospectus, which had in turn driven demand for standard street light poles and outdoor lighting products. According to the IMR report, expenditure on road infrastructure in Malaysia grew from USD2.7 billion (RM10.5 billion) in 2015 to USD3.3 billion (RM14.2 billion) in 2017;

**10. FINANCIAL INFORMATION (Cont'd)**

- township developments which had created demand for street lighting, particularly standard and decorative street light poles as well as outdoor lighting products;
- continuous need for replacement of existing street light poles and outdoor lighting products;
- our track record and manufacturing capabilities in offering street light poles that are able to meet customers' requirements and comply with the relevant requirements by JKR.
- our capabilities in manufacturing large poles, i.e. poles of up to 50 meters in height such as telecommunication monopoles and high mast poles, which fetch a higher sales value; and
- the growing need for telecommunication infrastructure, thus leading to an increasing need for telecommunication monopoles. According to the IMR report, broadband penetration rate in Malaysia grew from 99.7% in 2015 to 121.1% in 2018. The growth in broadband penetration indicates growth in demand for telecommunication infrastructure, including telecommunication monopoles.

The average revenue/unit for each of our product segments for the financial years under review are as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	Units	Average RM per unit	Units	Average RM per unit	Units	Average RM per unit	Units	Average RM per unit
<b>Manufacturing</b>								
Standard street light poles	16,325	800	15,615	803	19,345	895	14,814	896
Decorative light poles	4,992	1,904	5,564	1,754	7,143	1,796	7,962	1,829
Specialty poles	12,135	597	17,865	547	17,147	578	15,042	884
<b>Trading</b>								
Outdoor lighting products	8,888	1,203	7,717	1,594	10,664	1,941	7,296	3,090

The average revenue/unit for our standard street light poles remained between RM800 and RM896 during the financial years under review. Standard street light poles generally have less product differentiation and as such, the average selling price for standard street light poles are dependent on the average selling price by industry players for the similar products. However, significant increases in raw materials may result in an increase in selling prices of standard street light poles by industry players to pass on their exposure to higher steel prices to their customers.

Meanwhile, the average revenue/unit of our decorative light poles and specialty poles fluctuates for the financial years under review as the pricing these poles were determined and negotiated on a case-to-case basis. Pricing of these poles are dependent on factors such as:

- volume of order; and/or
- customisation requirements (size, material, design and height)

**10. FINANCIAL INFORMATION (Cont'd)**

The average revenue/unit for outdoor lighting products have been increasing on a year-on-year basis mainly due to a growing demand for light-emitting diode ("LED") outdoor lighting products as well as outdoor lighting products with higher wattage. All of these products had higher specifications (i.e. energy efficiency level, durability, brightness and useful life) and quality as compared to the conventional high intensity discharge ("HID") outdoor lighting products and thus, fetch higher sales value.

**(ii) Analysis of revenue by geographical locations**

The breakdown of our revenue by geographical locations is as follows:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
<b>Local</b>								
Malaysia	34,991	86.3	36,857	83.1	56,325	92.7	58,999	92.7
<b>Overseas</b>								
Australia	3,666	9.1	3,735	8.4	2,083	3.4	1,171	1.8
Singapore	1,836	4.5	2,696	6.1	1,234	2.1	628	1.0
Korea	-	-	750	1.7	459	0.8	2,282	3.6
Others <sup>(1)</sup>	47	0.1	336	0.7	646	1.0	600	0.9
<b>Sub-total</b>	<b>5,549</b>	<b>13.7</b>	<b>7,517</b>	<b>16.9</b>	<b>4,422</b>	<b>7.3</b>	<b>4,681</b>	<b>7.3</b>
<b>Total</b>	<b>40,540</b>	<b>100.0</b>	<b>44,374</b>	<b>100.0</b>	<b>60,747</b>	<b>100.0</b>	<b>63,680</b>	<b>100.0</b>

**Note:**

<sup>(1)</sup> Include Brunei, Myanmar, New Zealand, Sri Lanka and Maldives.

Our revenue from the local market contributed approximately 83.1% to 92.7% of our total revenue for the financial years under review while our total revenue from the overseas market accounted for approximately 7.3% to 16.9% of our total revenue for said period. We sold our steel poles as well as outdoor lighting products to a total of 1,291 local customers and 25 overseas customers during the financial years under review, out of which 811 customers are recurring customers (i.e. customers that have multiple purchases with us). Among the 811 recurring customers, 651 customers are active customers (i.e. customers that we sold our products to during FYE 2018).

Our revenue from each geographical location changes from year to year due to the level of demand and orders received from existing and new customers during the financial years under review.

**(iii) Commentary on revenue****Comparison between FYE 2015 and FYE 2016**

In FYE 2016, our Group recorded an overall increase in revenue of RM3.83 million or 9.4% from RM40.54 million in FYE 2015 to RM44.37 million in FYE 2016. This increase in revenue was due to the revenue growth in both manufacturing and trading segments.

## 10. FINANCIAL INFORMATION (*Cont'd*)

### ***Manufacturing***

Our revenue from the manufacturing segment increased by RM2.23 million or 7.5%, from RM29.85 million in FYE 2015 to RM32.08 million in FYE 2016. The increase was mainly due to the following:

- increase in revenue generated from specialty poles of RM2.50 million or 34.3%, as a result of higher volume of specialty poles sold to both existing and newly secured customers comprising specialised contractors in the telecommunication and oil and gas sectors in Malaysia and overseas. Our total units of specialty poles sold increased by 47.2% as we managed to take on more orders of specialty poles, as a result of our in-house capabilities in manufacturing large poles sections of up to 12 meters following our relocation to our Main Manufacturing Facility and purchase of new machinery to undertake the manufacturing of pole section of up to 12 meters in April 2016 and July 2016 respectively; and
- increase in revenue generated from decorative light poles of RM0.26 million or 2.7% due to higher volume of decorative light poles sold for several key residential township developments including Eco Majestic and Setia Ecohill. Our total units of decorative light poles sold increased by 11.5% between FYE 2015 and FYE 2016.

The increase in revenue generated from the sale of specialty poles and decorative light poles was partially offset by the decrease in revenue generated from the sale of standard street light poles as a result of lower volume of standard street light poles sold while the average selling price of standard street light poles remained consistent. Our total units of standard street light poles sold decreased by 4.3% between FYE 2015 and FYE 2016.

### ***Trading***

Our revenue from trading segment increased from RM10.69 million in FYE 2015 to RM12.30 million in FYE 2016, representing an increase of RM1.61 million or 15.1%, despite lower volume of outdoor lighting products sold during the year. This increase was contributed by the increase in our average selling price per units of RM391 or 32.5%, resulting from the shift in our customer's demand trend towards products with higher specifications and quality which include LED outdoor lighting products and outdoor lighting products with higher wattage, which are higher in sales value.

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

In FYE 2017, we recorded an overall increase in revenue of RM16.38 million or 36.9% from RM44.37 million in FYE 2016 to RM60.75 million in FYE 2017. The increase was due to the increase in revenue generated from both manufacturing and trading segments.

### ***Manufacturing***

Our revenue from manufacturing segment increased by RM7.97 million or 24.9% from RM32.07 million in FYE 2016 to RM40.05 million in FYE 2017. The increase was mainly due to the following:

- increase in revenue generated from standard street light poles of RM4.77 million or 38.0% as a result of the following:

## 10. FINANCIAL INFORMATION (Cont'd)

- higher volume of standard street light poles sold due to increased demand from highway projects such as East Klang Valley Expressway and Coastal Highway Southern Link, new residential township developments such as Eco Summer, Eco Spring and Hill Park Town, as well as major infrastructure projects such as the construction of MRT and LRT lines; and
- higher average selling price of standard street light poles of RM895 as compared to RM803 in FYE 2016 as we managed to pass on our exposure to higher steel prices to our customers. The average cost of steel plates and pipes increased from RM2,014 per MT and RM2,215 per MT in FYE 2016, to RM2,632 per MT and RM2,895 per MT in FYE 2017.
- increase in revenue generated from decorative light poles of RM3.07 million or 31.5% during the financial year. This was contributed by the higher volume of decorative poles sold for several residential township developments including Eco Summer, Eco Spring and Hill Park Town. The number of decorative light poles sold increased by 28.4% between FYE 2016 and FYE 2017.

### **Trading**

Our revenue from the trading segment increased by RM8.40 million or 68.3%, from RM12.30 million in FYE 2016 to RM20.70 million in FYE 2017. This increase was mainly due to the following:

- increase in number of outdoor lighting products sold as we bundled it with the sales of our steel poles. Bundling refers to the sale of our outdoor lighting products with steel poles. Bundling does not entail any product discounts and thus does not have any financial impact to our Group; and
- higher average selling price for outdoor lighting products, from RM1,594 per unit in FYE 2016 to RM1,941 per unit in FYE 2017. This is largely resulting from the shift in our customer's demand trend towards products with higher specifications and quality which include LED outdoor lighting products and outdoor lighting products with higher wattage, which fetch higher sales value.

### **Comparison between FYE 2017 and FYE 2018**

In FYE 2018, our revenue recorded an overall increase of RM2.93 million or 4.8% from RM60.75 million in FYE 2017 to RM63.68 million in FYE 2018.

### **Manufacturing**

Our revenue from the manufacturing segment increased by RM1.08 million or 2.7% from RM40.05 million in FYE 2017 to RM41.13 million in FYE 2018. The slight increase was due to the net effects of the increase in revenue generated from decorative light poles and specialty poles as a result of the following:

- higher volume of decorative light poles sold during the financial year. The increased number of decorative light poles sold was due to a large order for Iskandar Coastal Highway project in Johor Bahru. Despite the fact that the public road project required larger decorative light poles with a height of more than 12 meters (as opposed to the usual 8 or 9 meters), the average selling price for decorative light poles remained consistent from the previous financial year due to bulk discounts provided on the supply of decorative light poles to the said public road project;

**10. FINANCIAL INFORMATION (Cont'd)**

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- higher average selling price for specialty poles despite a lower number of specialty poles sold in FYE 2018. This was due to a higher demand for large specialty poles, particularly telecommunication monopoles and high mast poles, from local specialised telecommunication contractors and M&E contractor in FYE 2018. Such poles command a higher average selling price and as a result, the average selling price for specialty poles increased from RM578 per unit in FYE 2017 to RM884 per unit in FYE 2018. At the same time, the number of orders of other types of specialty poles such as camera poles, traffic poles, mid-hinge collapsible poles and mining light poles declined in the FYE 2018. This was partially offset from an increase in orders for oil and gas light poles from Korea.

However, our revenue from standard street light poles declined from RM17.31 million in FYE 2017 to RM13.28 million in FYE 2018 as a result of lower volume of standard street light poles sold due to lower demand resulting from the slowdown in construction of township development projects and infrastructure projects during the financial year.

***Trading***

Our revenue from trading segment recorded an increase of RM1.85 million or 8.9% from RM20.70 million in FYE 2017 to RM22.55 million in FYE 2018. The increase was due to a higher average selling price for outdoor lighting products in FYE 2018 as compared to FYE 2017 despite lesser outdoor lighting products sold in FYE 2018.

The higher average selling prices were due to a growing demand trend for products with higher specifications and quality which include LED outdoor lighting products and outdoor lighting products with higher wattage, which carry a higher sales value. In the FYE 2018, there was higher demand for these outdoor lighting products as compared to the previous financial years, mainly due to initiatives to install and/or replace LED outdoor lighting for street lighting in several states that were announced in the year. As a result, there was a higher number of LED outdoor lighting products and outdoor lighting products with higher wattage sold as compared to the previous years.

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**10. FINANCIAL INFORMATION (Cont'd)****(b) Cost of sales, GP and GP margin**

Our cost of sales mainly comprises raw materials and supplies, direct labour and other direct costs. Our costs of sales are subject to changes in cost of material and supplies as well as direct labour costs.

**(i) Analysis of cost of sales by cost components**

Our cost of sales comprises of the following:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
<b>Manufacturing</b>								
Raw materials	10,158	29.7	7,296	22.8	9,366	23.1	9,999	23.3
Supplies	6,514	19.1	4,688	14.7	6,374	15.7	6,406	15.0
Direct labour costs	5,002	14.6	4,691	14.7	6,284	15.5	5,890	13.8
Other direct costs	4,107	12.0	5,293	16.6	7,560	18.6	6,960	16.3
<b>Sub-total</b>	<b>25,780</b>	<b>75.4</b>	<b>21,968</b>	<b>68.8</b>	<b>29,584</b>	<b>72.9</b>	<b>29,255</b>	<b>68.4</b>
<b>Trading</b>								
Supplies	8,383	24.6	9,979	31.2	10,968	27.1	13,513	31.6
<b>Total</b>	<b>34,163</b>	<b>100.0</b>	<b>31,947</b>	<b>100.0</b>	<b>40,552</b>	<b>100.0</b>	<b>42,768</b>	<b>100.0</b>

The cost of sales for the past 4 FYE 2015 to 2018 were largely attributable to our manufacturing segment, constituting 75.4%, 68.8%, 72.9% and 68.4% to our total cost of sales in the respective financial years.

The cost of sales attributable to raw materials was the largest cost component for our manufacturing segment during the financial years under review, contributing 29.7%, 22.8%, 23.1% and 23.3% to our total cost of sales in the FYE 2015, 2016, 2017 and 2018, respectively. Costs of raw materials are largely determined by market prices of steel products which are subject to, amongst others market supply and demand conditions, prices of raw materials for the production of steel and prevailing energy costs, as well as global steel prices and Government regulations.

The cost of sales attributable to supplies (foundation bolts and nuts, junction boxes and concrete footing) and other direct costs (such as anti-corrosive galvanising and powder coating costs, operation and maintenance costs, rentals for machinery and equipment, transportation costs and customs duties) grew in line with the number of steel poles manufactured to meet customer demands during the financial years under review. The cost of sales attributable to direct costs is dependent on the number of workers and hours required in the manufacturing of our steel poles which are subject to the level of automation of our manufacturing processes. The use of more CNC machinery and equipment will increase operational efficiency, leading to less hours and workers required.

Meanwhile, the only cost component of our trading segment is supplies of outdoor lighting products. Costs of these supplies are determined by the type of products we purchase and our ability to negotiate better discounts with our suppliers. Generally, outdoor lighting products with higher specifications and quality are higher in purchase value.

**10. FINANCIAL INFORMATION (Cont'd)****(ii) Analysis of cost of sales by business segment**

The table below sets out our cost of sales by business segment:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<b>Manufacturing</b>								
Standard street light poles	12,192	35.7	10,435	32.7	14,514	35.8	11,172	26.1
Decorative light poles	8,466	24.8	6,442	20.2	9,507	23.4	10,830	25.3
Specialty poles	5,122	15.0	5,091	15.9	5,563	13.7	7,253	17.0
<b>Sub-total</b>	<b>25,780</b>	<b>75.5</b>	<b>21,968</b>	<b>68.8</b>	<b>29,584</b>	<b>72.9</b>	<b>29,255</b>	<b>68.4</b>
<b>Trading</b>								
Outdoor lighting products	8,383	24.5	9,979	31.2	10,968	27.1	13,513	31.6
<b>Total</b>	<b>34,163</b>	<b>100.0</b>	<b>31,947</b>	<b>100.0</b>	<b>40,552</b>	<b>100.0</b>	<b>42,768</b>	<b>100.0</b>

The average cost of sales/unit for each of our product segments for the financial years under review is as follows:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	Units	RM/unit	Units	RM/unit	Units	RM/unit	Units	RM/unit
<b>Manufacturing</b>								
Standard street light poles	16,325	747	15,615	668	19,345	750	14,814	754
Decorative light poles	4,492	1,885	5,564	1,158	7,143	1,331	7,962	1,360
Specialty poles	12,135	422	17,865	285	17,147	324	15,042	482
<b>Trading</b>								
Outdoor lighting products	8,888	943	7,717	1,293	10,664	1,029	7,296	1,852

Our cost of sales was mainly attributable to our manufacturing segment, representing 68.4% to 75.5% of total cost of sales for the financial years under review. This corresponds with our revenue segmentation where the manufacturing segment was the larger revenue contributor to our Group.

**(iii) Analysis of GP and GP margin by business segment**

The table below sets out our GP and GP margin by business segment:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	GP		GP		GP		GP	
	GP	margin	GP	margin	GP	margin	GP	margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<b>Manufacturing</b>								
Standard street light poles	876	6.7	2,106	16.8	2,799	16.2	2,104	15.8
Decorative light poles	1,037	10.9	3,315	34.0	3,323	25.9	3,735	25.6
Specialty poles	2,155	29.6	4,686	47.9	4,345	43.9	6,039	45.4
<b>Sub-total</b>	<b>4,068</b>	<b>13.6</b>	<b>10,107</b>	<b>31.5</b>	<b>10,467</b>	<b>26.1</b>	<b>11,878</b>	<b>28.9</b>
<b>Trading</b>								
Outdoor lighting products	2,309	21.6	2,320	18.9	9,728	47.0	9,034	40.1
<b>Total</b>	<b>6,377</b>	<b>15.7</b>	<b>12,427</b>	<b>28.0</b>	<b>20,195</b>	<b>33.2</b>	<b>20,912</b>	<b>32.8</b>



**10. FINANCIAL INFORMATION (Cont'd)**

Our trading segment recorded a GP margin of 47.0% and 40.1% for FYE 2017 and FYE 2018, respectively. These GP margins may not be sustainable as the level of competition in the market increases in the future due to the entry of more outdoor lighting products suppliers. The increased level of competition may require our Group to offer a more competitive pricing for our outdoor lighting products in order to remain competitive in the market. This may result in a lower GP margin and lower profitability for our Group's trading segment in the future as compared to FYE 2017 and FYE 2018. The GP margin for the trading segment for FYE 2016 was 18.9%.

**(iv) Commentary on cost of sales, GP and GP margin****Comparison between FYE 2015 and FYE 2016*****Manufacturing***

Our total cost of sales decreased by RM2.21 million or 6.5% from RM34.16 million in FYE 2015 to RM31.95 million in FYE 2016 as all 3 of our steel poles products, namely standard street light poles, decorative light poles and specialty poles experienced an average decrease in cost of sales per unit of approximately 30.9% due to the following:

- Decrease in average costs of steel plates and pipes by approximately 7.8% as a result of the liberalisation of steel industry in Malaysia that encouraged imports of hot rolled coil steel products (which includes steel plates). A provisional safeguard duty was put in place to progressively liberalise the steel industry, starting from July 2015. The provisional safeguard duty imposed reduced from 17.4% from July 2015 to July 2016, to 13.9% from July 2016 to July 2017. The lower duty imposed encouraged more imports, leading to lower prices of steel plates and pipes;
- Increase in efficiency arising from the use of CNC machinery and robotic cutting machinery following our relocation to our Main Manufacturing Facility in April 2016, which enabled us to meet our production schedule within the stipulated timeframe without incurring overtime claims from our direct workers; and
- In-house capabilities of manufacturing pole sections of up to 12 meters in length through the new machinery purchased and commenced operating in July 2016, enabling us to manufacture high mast poles and telecommunication monopoles in-house. In the past, the manufacturing of large pole sections was outsourced to third party service providers.

Our GP from the manufacturing segment recorded an increase of RM6.04 million or 148.4% from the previous financial year, from RM4.07 million in FYE 2015 to RM10.11 million in FYE 2016, which is in line with the growth in our revenue for manufacturing segment and the reduction in our cost of sales per unit.

Accordingly, our GP margin for our manufacturing segment improved from 13.6% in FYE 2015 to 31.5% in FYE 2016.

**10. FINANCIAL INFORMATION (Cont'd)*****Trading***

Meanwhile, cost of sales for our trading segment increased by RM1.60 million or 19.1%, despite a drop in total quantity sold of approximately 13.2%. The increase in cost of sales was due to the increase in average cost of sales per unit from RM943 in FYE 2015 to RM1,293 in FYE 2016, resulting from the increase in sale of higher sales value products with higher specifications and quality in FYE 2016, which are higher in purchase value.

Consequently, our trading segment recorded a slight increase in GP of RM0.01 million in FYE 2016 as compared to FYE 2015. Despite that, our GP margin for trading segment decreased from 21.6% in FYE 2015 to 18.9% in FYE 2016 due to the 37.1% increase in average cost of sales per unit of outdoor lighting products, outpacing the 32.5% increase in average revenue per unit of outdoor lighting products as we absorbed part of the incremental in the average cost of sales per unit in order to offer a more competitive pricing to our customers for several residential township development including Eco Majestic, Eco Tropics and Setia Eco Glades. Our Group generally consider several aspects such as size of orders, urgency of order, mode of payment (i.e. partial cash sales or full credit sales) and customers' feedback (i.e. customers' preferred brand in certain project) in deciding when to absorb or pass on the incremental cost to our customers. These aspects are considered on a case by case basis.

**Comparison between FYE 2016 and FYE 2017*****Manufacturing***

Our total cost of sales increased by RM8.60 million or 26.9% from RM31.95 million in FYE 2016 to RM40.55 million in FYE 2017 as all 3 of our steel poles products, namely standard street light poles, decorative light poles and specialty poles experienced an average increase in cost of sales per unit of approximately 13.9% due to the increase in the average cost of steel plates and pipes from RM2,014 per MT and RM2,215 per MT in FYE 2016, to RM2,632 per MT and RM2,895 per MT in FYE 2017 as a result of a hike in market steel price.

Our GP margin for the manufacturing segment reduced from 31.5% to 26.1% mainly due to the decrease in GP margin of decorative light poles arising from an order secured for the supply of large decorative light poles of 12 meters in height for the Iskandar Coastal Highway project in Johor Bahru at a competitive pricing. Our first order for this project was secured in October 2017. Our Group generally consider several aspects such as size of orders, urgency of order, customisation requirements (i.e. size, material, design and height) when pricing our manufactured products. These aspects are considered on a case by case basis.

***Trading***

Meanwhile, the trading segment recorded an increase in cost of sales of 9.9%, which was in line with the increase in revenue from our trading segment. However, our GP margin for the trading segment increased significantly from 18.9% in FYE 2016 to 47.0% in FYE 2017 due to a lower average cost of sales per unit in FYE 2017 and higher average revenue per unit in FYE 2017 as we were able to attain bulk discount from our supplier for larger volume of outdoor lighting product procured. We purchased a larger volume of outdoor lighting products as we supplied more outdoor lighting products to several residential township development including Eco Summer, Eco Spring and Hill Park Town.

**10. FINANCIAL INFORMATION (Cont'd)****Comparison between FYE 2017 and FYE 2018*****Manufacturing***

Our total cost of sales decreased by RM0.32 million or 1.1% from RM29.58 million in FYE 2017 to RM29.26 million in FYE 2018 which resulted from the decrease in cost of sales of standard street light poles largely due to a lower number of standard street light poles manufactured during FYE 2018.

Nevertheless, the decrease in total cost of sales for standard street light poles was partially offset by the increase in total cost of sales of decorative light poles and specialty poles as a result of:

- an increase in number of decorative light poles manufactured by approximately 11.5% from 7,143 units in FYE 2017 to 7,962 units in FYE 2018. This is largely due to orders of decorative light poles secured for the Iskandar Coastal Highway project in Johor Bahru.
- increase in cost of sale per unit for specialty poles as there was a higher number of large specialty poles (such as telecommunication monopoles, oil and gas light poles and high mast poles). These large poles have an average height of 30 meters, and is thus taller than other types of specialty poles with an average height of 10 meters. As a result, more raw materials were required in the manufacturing of these large specialty poles which led to an increase in cost of sales for specialty poles.

Accordingly, our GP margin for the manufacturing segment increased from 26.1% in FYE 2017 to 28.9% in FYE 2018. This was largely due to an increase in GP margin for our specialty pole segment where average selling price for specialty poles increased by 52.9% while cost of sales per unit for our specialty poles increased by only 48.8%. Average selling price for specialty poles was higher as there were more large specialty poles sold during the financial year, which generally command a better profit margin.

***Trading***

Meanwhile, cost of sales of our trading segment increased by RM2.55 million or 23.2%. The increase in cost of sales was due to the increase in average cost of sales per unit from RM1,029 in FYE 2017 to RM1,852 in FYE 2018, resulting from more products with higher specifications and quality being sold during FYE 2018 which are higher in purchase value. Our GP margin for the trading segment also decreased from 47.0% in FYE 2017 to 40.1% in FYE 2018 as we did not fully pass on the incremental cost to our customers in order to offer a more competitive pricing to our customers to secure orders. Our Group generally consider several aspects such as size of orders, urgency of order, mode of payment (i.e. partial cash sales or full credit sales) and customers' feedback (i.e. customers' preferred brand in certain project) in deciding when to absorb or pass on the incremental cost to our customers. These aspects are considered on a case by case basis.

**10. FINANCIAL INFORMATION (Cont'd)****(c) Other operating income**

The breakdown of our other operating income for the financial years under review is as follows:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Gain on disposal of property, plant and equipment	408	49.0	-	-	22	5.5	51	8.1
Realised foreign exchange gains	342	41.1	430	87.5	343	86.4	*	*
Reversal of allowance for doubtful debts	56	6.7	44	8.9	-	-	257	40.9
Bad debts recovered	22	2.6	7	1.4	-	-	-	-
Interest income	3	0.4	6	1.2	21	5.3	-	-
Reversal of allowance for obsolete inventories	-	-	-	-	-	-	245	39.0
Miscellaneous income	2	0.2	5	1.0	11	2.8	9	1.4
Rental income	-	-	-	-	-	-	66	10.5
<b>Total</b>	<b>833</b>	<b>100.0</b>	<b>492</b>	<b>100.0</b>	<b>397</b>	<b>100.0</b>	<b>628</b>	<b>100.0</b>

**Note:**

\* Negligible

**Comparison between FYE 2015 and FYE 2016**

Our other operating income decreased by RM0.34 million or 40.9%, from RM0.83 million in FYE 2015 to RM0.49 million in FYE 2016.

The decrease was primarily due to absence of a one-off gain on disposal of property, plant and equipment of RM0.41 million recorded in FYE 2015. In FYE 2015, the gain on disposal was from the disposal of 1 unit of 3 storey leasehold semi-detached factory in Taman Meranti Jaya of RM0.25 million and 2 units of motor vehicles to our Promoters of RM0.16 million.

**Comparison between FYE 2016 and FYE 2017**

In FYE 2017, our other operating income decreased by RM0.09 million or 19.3%, from RM0.49 million in FYE 2016 to RM0.40 million in FYE 2017. The decrease was mainly due to lower realised gains on foreign currency exchange in FYE 2017 of RM0.34 million as compared to RM0.43 million in FYE 2016, which is in line with the lower foreign sales recorded in FYE 2017.

**Comparison between FYE 2017 and FYE 2018**

In FYE 2018, our other operating income increased by RM0.23 million or 57.5%, from RM0.40 million in FYE 2017 to RM0.63 million in FYE 2018. The increase was primarily due to:

- reversal of allowance for doubtful debts of RM0.26 million due to a settlement of debt from a local customer which had been impaired in FYE 2017; and

**10. FINANCIAL INFORMATION (Cont'd)**

- reversal of allowance for obsolete inventories of RM0.25 million as a result of recycling defected raw materials into reusable inventory. In FYE 2017, there were defects in steel plates (i.e. uneven surface) purchased from our existing supplier. We had difficulty returning these materials to the suppliers as we could not ascertain if the defect occurred before or after the steel plates were delivered to our premise. In FYE 2018, these steel plates were turned into reusable inventory as we found other usages for these steel plates by cutting it into smaller pieces for the manufacturing of services doors (i.e. components of the steel poles) and adjoining parts of smaller steel poles.

However, this was partially offset by the decrease of RM0.34 million in realised gains on foreign exchange in FYE 2018 which was due to the strengthening of the RM against the USD in FYE 2018 in comparison to FYE 2017.

**(d) Operating expenses and finance costs**

Our operating expenses comprise expenses that are not directly allocated to cost of sales, such as selling and distribution expenses, administrative expenses and other operating expenses. Our finance costs comprise interest expense on our Group's borrowings.

The breakdown of our operating expenses and finance costs for the financial years under review, are as follows:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Selling and distribution expenses	428	8.8	584	10.1	868	9.6	936	10.0
Administrative expenses	4,115	85.0	4,725	82.1	6,684	73.5	7,059	75.6
Other operating expenses	53	1.1	55	1.0	638	7.0	270	2.9
Finance cost	247	5.1	394	6.8	902	9.9	1,072	11.5
<b>Total</b>	<b>4,843</b>	<b>100.0</b>	<b>5,758</b>	<b>100.0</b>	<b>9,092</b>	<b>100.0</b>	<b>9,337</b>	<b>100.0</b>

Further details of our operating expenses and finance costs are elaborated below:

**(i) Selling and distribution expenses**

The breakdown of our selling and distribution expenses for the financial years under review is shown below:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Sales commissions	179	41.8	251	43.0	336	38.7	415	44.3
Marketing expenses	154	36.0	218	37.3	302	34.8	302	32.3
Travelling expenses	95	22.2	115	19.7	230	26.5	219	23.4
<b>Total</b>	<b>428</b>	<b>100.0</b>	<b>584</b>	<b>100.0</b>	<b>868</b>	<b>100.0</b>	<b>936</b>	<b>100.0</b>

<i>As a percentage of revenue</i>	<i>1.1%</i>	<i>1.3%</i>	<i>1.4%</i>	<i>1.5%</i>
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For the financial years under review, our selling and distribution expenses have been increasing in line with the increase in our revenue. The 2 largest components of our selling and distribution expenses are sales commissions for our manufacturing and trading business segment and marketing expenses. Our selling and distribution expenses do not include the delivery cost of our finished products to customers.

**10. FINANCIAL INFORMATION (Cont'd)**

Collectively, these 2 components constituted approximately 73.5% of the selling and distribution cost in FYE 2017 and 76.6% of the selling and distribution cost in FYE 2018. Travelling expenses comprises transportation expenses and accommodation expenses incurred by our marketing personnel.

**(ii) Administrative expenses**

The breakdown of our administrative expenses for the financial years under review is shown below:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Staff costs	2,089	50.8	2,570	54.4	3,687	55.0	4,597	65.1
Repair and maintenance costs	824	20.0	1,065	22.6	1,267	19.0	1,120	15.9
Administrative expenses <sup>(1)</sup>	713	17.3	805	17.0	786	11.8	758	10.7
Professional fees <sup>(2)</sup>	359	8.7	133	2.8	632	9.5	342	4.8
Others <sup>(3)</sup>	130	3.2	152	3.2	312	4.7	242	3.5
<b>Total</b>	<b>4,115</b>	<b>100.0</b>	<b>4,725</b>	<b>100.0</b>	<b>6,684</b>	<b>100.0</b>	<b>7,059</b>	<b>100.0</b>

**Notes:**

- (1) Including petrol expenses, levy for foreign workers, permit fees, road tax renewal fees as well as printing and office supply expenses.
- (2) Including accounting, audit, tax filing, secretarial, legal and other professional fees. The professional fees recorded in FYE 2017 mainly relates to the legal fees incurred pursuant to the acquisition of the Adjacent Land.
- (3) Including utilities, insurance and finance charges.

For the financial years under review, our administrative expenses have been increasing in line with the increase in our revenue. As our Group's revenue increases, we will incur more administrative expenses to support the growth in our business. The majority of our administrative expenses is staff costs which constitutes more than 50% of our administrative expenses in the financial years under review.

**(iii) Other operating expenses**

The breakdown of our other operating expenses for the financial years under review is shown below:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Allowance for doubtful debts	-	-	-	-	385	60.3	50	18.5
Allowance for obsolete inventories	-	-	-	-	245	38.4	-	-
Miscellaneous expenses <sup>(1)</sup>	53	100.0	55	100.0	8	1.3	220 <sup>(2)</sup>	81.5
<b>Total</b>	<b>53</b>	<b>100.0</b>	<b>55</b>	<b>100.0</b>	<b>638</b>	<b>100.0</b>	<b>270</b>	<b>100.0</b>

**Notes:**

- (1) Includes bad debts and other general expenses

**10. FINANCIAL INFORMATION (Cont'd)**

- (2) Mainly comprise late payment interest incurred for the extension of deadline to complete the acquisition of Light Industrial Land. We seek the said extension from vendor of the Light Industrial Land as we were awaiting the drawdown of term loan for the said acquisition and have no immediate plans to utilise the Light Industrial Land. As at LPD, we have made full payment for the Light Industrial Land but pending registration of transfer of title.

Overall, our other operating expenses have been maintained at RM0.06 million and below, save for in FYE 2017 when other operating expense was recorded at RM0.64 million due to allowances made for doubtful debts and obsolete inventories. In FYE 2018, we managed to fully reverse the allowance for obsolete inventories by recycling the defected raw materials into reusable inventories as well as partly recover the doubtful debts provided after arriving at debt settlement for instalment repayment with a local customer. As a result, our other operating expense in FYE 2018 reduced to RM0.27 million.

**(iv) Finance cost**

The breakdown of our finance costs for the financial years under review is shown below:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Interest expenses on:								
Term loans	205	83.0	289	73.4	777	86.1	933	87.0
Finance leases	34	13.8	83	21.0	107	11.9	99	9.3
Bankers' acceptance	8	3.2	22	5.6	18	2.0	40	3.7
<b>Total</b>	<b>247</b>	<b>100.0</b>	<b>394</b>	<b>100.0</b>	<b>902</b>	<b>100.0</b>	<b>1,072</b>	<b>100.0</b>

We utilise bankers' acceptance to finance our working capital, which includes inventories and trade receivables; while finance leases and term loans are utilised for the acquisition of properties and purchase of machinery.

A large part of our finance costs are interests paid for term loans and finance leases which are utilised to acquire new properties and machinery.

Our finance cost for the financial years under review ranges from RM0.25 million to RM1.07 million, representing approximately 0.6% to 1.7% of our total revenue for the financial years under review.

**Comparison between FYE 2015 and FYE 2016**

In FYE 2016, our operating expenses and finance costs increased by RM0.92 million or 18.9%, from RM4.84 million in FYE 2015 to RM5.76 million in FYE 2016.

The increase was mainly due to the following:

- increase in staff costs by RM0.48 million, as our workforce (save for direct labour) increased from 24 employees in FYE 2015 to 32 employees in FYE 2016;
- increase in repair and maintenance costs of RM0.24 million, that was incurred due to the shifting of our operations into the Main Manufacturing Facility during the financial year;

**10. FINANCIAL INFORMATION (Cont'd)**

- increase in selling and distribution expenses of RM0.16 million which is in line with the higher revenue recorded in FYE 2016. Selling and distribution expenses as a percentage of revenue increased from 1.1% in FYE 2015 to 1.3% in FYE 2016; and
- increase in finance costs of RM0.15 million, resulting from interest expenses on additional term loans and finance leases for the purchase of new machinery and equipment, including our press brake machine.

**Comparison between FYE 2016 and FYE 2017**

In FYE 2017, our operating expenses and finance costs increase by RM3.33 million or 57.9% from RM5.76 million in FYE 2016 to RM9.09 million in FYE 2017.

The higher operating expenses and finance costs was mainly due to the following:

- increase in staff costs by RM1.12 million as a result of the following:
  - RM0.22 million increase in salary for our employees as our workforce (save for direct labours) increased from 32 employees in FYE 2016 to 36 employees in FYE 2017;
  - Annual increments in salary for Directors and certain key employees of RM0.40 million. The significant annual increment was due to our improved financial performance in FYE 2017 whereby our revenue recorded a growth of 36.9% compared to FYE 2016;
  - performance bonus for FYE 2016 of RM0.43 million which were expensed out in FYE 2017 as compared with the performance bonus for FYE 2015 of RM0.26 million which were expensed out in FYE 2016; and
  - provision of bonus for FYE 2017 of RM0.55 million due to the adoption of more prudent accounting policies. We do not recognise any provision of bonus in the past;
- allowance for doubtful debts of RM0.39 million for debtors aging more than 1 year from the credit period provided and doubtful in its recoverability;
- allowance for obsolete inventories of RM0.25 million made for defected raw materials that could not be returned to the supplier; and
- higher interest expense on term loans of RM0.49 million, arising from the drawdown of term loans to finance the purchase of a leasehold industrial land adjacent to our Main Manufacturing Facility.
- increase in selling and distribution expenses of RM0.28 million, which is in line with the higher revenue recorded in the FYE 2017. Selling and distribution expenses as a percentage of revenue increased slightly from 1.3% in FYE 2016 to 1.4% in FYE 2017.

**Comparison between FYE 2017 and FYE 2018**

In FYE 2018, our operating expenses and finance costs increased by RM0.25 million or 2.7% mainly due to the net effect of the following:

- increase in staff cost by RM0.91 million as our workforce (save for direct labour) increased from 37 employees in FYE 2017 to 66 employees in FYE 2018; and
- higher interest expense on term loan of RM0.16 million arising from the purchase of new machinery and equipment in FYE 2018.



**10. FINANCIAL INFORMATION (Cont'd)****(e) PBT and PBT margin**

The analysis of our PBT and PBT margins for the financial years under review is explained in the subsections below:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Revenue (RM'000)	40,540	44,374	60,747	63,680
PBT (RM '000)	2,367	7,161	11,500	12,203
PBT Margin (%)	5.8%	16.1%	18.9%	19.2%

**Comparison between FYE 2015 and FYE 2016**

We recorded a higher PBT margin in FYE 2016 of 16.1%, from 5.8% in FYE 2015. This was a result of a significant increase in GP margin in the financial year (from 15.7% in FYE 2015 to 28.0% in FYE 2016), while operating expenses and finance costs as a percentage of revenue increased marginally (from 11.9% in FYE 2015 to 13.0% in FYE 2016). The improved GP margin was mainly due to our steel pole products which experienced an average decrease in cost of sales per unit of approximately 30.9%.

**Comparison between FYE 2016 and FYE 2017**

Our PBT margin in FYE 2017 increased from 16.1% in FYE 2016 to 18.9% in FYE 2017. The increase was due to the higher GP margin in FYE 2017 (from 28.0% in FYE 2016 to 33.2% in FYE 2017). The higher GP margin was partially offset by a higher operating expenses and finance costs as a percentage of revenue (from 13.0% in FYE 2016 to 15.0% in FYE 2017) in the financial year. The improved GP margin was mainly due to our trading segment as we were able to attain bulk discount from larger volume of outdoor lighting product procured.

**Comparison between FYE 2017 and FYE 2018**

We recorded a higher PBT margin in FYE 2018 of 19.2%, from 18.9% in FYE 2017, due to the following:

- higher operating income in FYE 2018 (from RM0.40 million in FYE 2017 to RM0.63 million in FYE 2018). The higher operating income was mainly due to a reversal of allowance for doubtful debts and reversal of allowance for obsolete inventories, as elaborated in Section 10.2.2(c); and
- lower other operating expenses in FYE 2018 (from RM0.64 million in FYE 2017 to RM0.27 million in FYE 2018). The higher other operating expenses incurred in FYE 2017 was mainly due to the higher allowance of doubtful debts of RM0.39 million (as compared with RM0.05 million in FYE 2018) and allowance of obsolete inventories of RM0.25 million recorded in FYE 2017.

**(f) Taxation**

The table below sets out the comparison between the statutory tax rates and our effective tax rates for the financial years under review:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Statutory tax rate (%)	25.0%	24.0%	24.0%	24.0%
Effective tax rate (%)	8.1%	26.3%	26.0%	23.7%

**10. FINANCIAL INFORMATION (Cont'd)**

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**Comparison between FYE 2015 and FYE 2016**

In FYE 2016, our tax expense was RM1.88 million at the back of PBT of RM7.16 million, translating into an effective tax rate of approximately 26.3% which is higher than the statutory tax rate. This was primarily due to RM0.35 million under provision in taxation recognised in FYE 2016 as compared to RM0.39 million over provision in taxation recognised in FYE 2015 as well as RM0.16 million of under provision in deferred tax in prior years. Our tax expense in FYE 2016 was partially offset by utilisation of RM0.46 million reinvestment allowances as compared to RM0.08 million in FYE 2015. The higher effective tax rate of 26.3% in FYE 2016 as compared to 8.1% in FYE 2015 was mainly due to the lower tax expense in FYE 2015 resulting from the adjustment of over provision of tax of RM0.39 million provided in FYE 2014. The over provision of tax of RM0.39 million in FYE 2014 was a result of an overestimation of the tax expense for FYE 2014 as a result of the reinvestment tax allowance of RM1.48 million claimed for the construction cost of Main Manufacturing Facility and acquisition of manufacturing machineries incurred during FYE 2014.

**Comparison between FYE 2016 and FYE 2017**

In FYE 2017, our tax expense was RM2.96 million at the back of PBT of RM11.50 million, translating into an effective tax rate of approximately 26.0% which is higher than the statutory tax rate. This was primarily due to lower amount of reinvestment allowances utilised coupled with higher amount of non-allowable expenses in FYE 2017. In FYE 2017, amount of reinvestment allowances utilised decreased to RM0.03 million as compared to RM0.46 million in FYE 2016 whereas non-allowable expenses increased from RM0.21 million to RM0.30 million. Notwithstanding the above, our tax expense in FYE 2017 was partially offset by over provision of deferred tax and taxation in FYE 2016. The marginal decrease in effective tax rate in FYE 2017, from 26.3% in FYE 2016 to 26.0% in FYE 2017 was mainly due to the under provision of tax for FYE 2016 of RM0.35 million as compared to the under provision of tax for FYE 2017 of RM1,763.

**Comparison between FYE 2017 and FYE 2018**

In FYE 2018, our tax expense was RM2.90 million at the back of PBT of RM12.20 million, translating into an effective tax rate of approximately 23.7% which is lower than the statutory tax rate. This was primarily due to higher reinvestment allowances utilised of RM0.12 million in FYE 2018 as compared to RM0.03 million in FYE 2017 while income not subject to tax increased from RM5,280 to RM0.12 million.

Our Group has not assumed any responsibility for the withholding of tax at source during the financial years under review.

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**10. FINANCIAL INFORMATION (Cont'd)****10.2.4 Review of financial position****(a) Assets**

Our assets as at the end of the financial years under review comprise the following:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>				
<b>Non-current assets<sup>(1)</sup></b>				
Property, plant and equipment	15,972	19,175	29,420	23,136
Investment properties	-	-	-	1,355 <sup>(2)</sup>
<b>Total non-current assets</b>	<b>15,972</b>	<b>19,175</b>	<b>29,420</b>	<b>24,491</b>
<b>Current assets</b>				
Inventories	1,981	2,596	9,035	9,707
Trade receivables	11,491	16,910	18,273	22,545
Other receivables	965	3,923	1,937	3,016
Tax recoverable	706	42	37	52
Cash and bank balances	1,034	2,170	5,333	3,931
<b>Total current assets</b>	<b>16,177</b>	<b>25,641</b>	<b>34,615</b>	<b>39,251</b>
Asset held-for-sale	-	-	-	4,377 <sup>(3)</sup>
<b>TOTAL ASSETS</b>	<b>32,149</b>	<b>44,816</b>	<b>64,035</b>	<b>68,119</b>

**Notes:**

- (1) The NBV of material properties owned by our Group (inclusive of capital work-in-progress) for the financial years under review are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Adjacent Land	-	-	7,551	6,645
Agricultural Land A	562	747	737	-
Agricultural Land B	576	762	752	-
Alam Puchong Land	2,891	3,942	4,422	-
Investment Property A	685	671	656	640
Investment Property B	747	738	724	714
Main Manufacturing Facility	7,995	8,508	8,350	8,192
Meslite's Factory	-	-	2,779	2,745

Agricultural Land A and Agricultural Land B has been disposed during FYE 2018 whereas Alam Puchong Land is in the midst of being disposed and has been reclassified from non-current assets to asset held-for-sale in FYE 2018.

- (2) Pertaining to the Investment Property A and Investment Property B that were previously utilised as the manufacturing facility of Meslite. Investment Property A and Investment Property B were rented out to third party during FYE 2018 following the relocation of Meslite's manufacturing operation to Meslite's Factory during FYE 2017.
- (3) Pertaining to the Alam Puchong Land which is in the midst of being disposed.

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**10. FINANCIAL INFORMATION (Cont'd)**

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**Comparison between FYE 2015 and FYE 2016**

Our total assets increased by RM12.67 million from RM32.15 million in FYE 2015 to RM44.82 million in FYE 2016. This was due to an increase in non-current assets and current assets of RM3.20 million and RM9.46 million, respectively.

**Non-current assets**

The increase in non-current assets was mainly due to, amongst others, the following:

- work-in-progress for the construction of our Main Manufacturing Facility of RM2.43 million which was completed in the first half of 2016; and
- purchase of new machinery (largely comprising a press brake machine for manufacturing large poles and forklifts), amounting to RM1.35 million.

**Current assets**

The increase in current assets was mainly due to, amongst others, the following:

- increase in trade receivables of RM5.42 million which is in line with the increase in our revenue;
- Increase in the other receivables of RM2.96 million mainly due to advance payment of RM1.86 million made for the purchase of Meslite's Factory and earnest deposits of RM0.91 million for the purchase of the Adjacent Land;
- increase in the cash and bank balances of RM1.14 million; and
- increase in inventories of RM0.62 million mainly due to the increase in raw materials such as steel plates and steel pipes stored in anticipation for increasing orders and higher steel prices in the forthcoming financial year.

**Comparison between FYE 2016 and FYE 2017**

Our total assets increased by RM19.22 million from RM44.82 million in FYE 2016 to RM64.04 million in FYE 2017. This was due to an increase in non-current assets and current assets of RM10.25 million and RM8.97 million, respectively.

**Non-current assets**

The increase in non-current assets was mainly due to, amongst others, the following:

- purchase of the Adjacent Land for RM6.85 million;
- purchase of a Meslite's Factory for RM2.83 million; and
- construction work-in-progress of RM1.33 million for the construction of fence, gates, concrete flooring and drainage works for the Adjacent Land and the milestone payment in relation to the purchase of Alam Puchong Land that are under development.

**10. FINANCIAL INFORMATION (Cont'd)****Current assets**

The increase in current assets was mainly due to, amongst others, the following:

- increase in inventories of RM6.44 million mainly due to more raw materials such as steel plates and steel pipes stored resulting from an increase in storage space following the acquisition of the Adjacent Land in the second half of 2017. This allowed us to order our raw materials in bulk to benefit from bulk discounts. The decision to purchase more raw materials was also in anticipation of the increase in steel prices;
- increase in the cash and bank balances of RM3.16 million; and
- increase in trade receivables of RM1.36 million which is in line with the increase in revenue during the financial year.

The increase in current assets was partially offset by a decrease of RM1.99 million in other receivables which was mainly due to the reclassification of advance payment and earnest deposits for the purchase of Meslite's Factory and Adjacent Land to property, plant and equipment following its completion in FYE 2017.

**Comparison between FYE 2017 and FYE 2018**

Our total assets increased by RM4.08 million from RM64.04 million in FYE 2017 to RM68.12 million in FYE 2018. This was due to a net effect of an increase of RM4.64 million in current assets and decrease of RM0.49 million in non-current assets.

**Non-current assets**

The slight decrease in non-current assets was mainly due to the reclassification of Alam Puchong Land to asset held-for-sale, disposals of 2 unit of motor vehicles and 1 forklift amounting to RM0.10 million as well as the disposals of Agricultural Land A and Agricultural Land B during FYE 2018.

**Current assets**

The increase in current assets was mainly due to, amongst others, the following:

- increase in inventories of RM0.67 million, which was mainly consist of raw materials such as steel plate and steel pipes and work-in-progress products for standard street light poles and decorative light poles that are waiting to undergo galvanising;
- increase in trade receivables of RM4.27 million in line with the slight increase in revenue and the concentration of sales in the fourth quarter of 2018 which have not reached their repayment period;
- increase in other receivables of RM1.08 million, which was mainly due to professional fees in relation to our Listing that are yet to be expensed. Our total Listing expenses (excluding underwriting, placement and brokerage fees) is estimated to be RM2.40 million. These expenses will be expensed out after our Listing and will reduce our profits for FYE 2019.

**10. FINANCIAL INFORMATION (Cont'd)****(b) Liabilities**

Our liabilities as at the end of the financial years under review comprise the following:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	4,087	9,175	15,374	14,934
Finance lease liabilities	569	1,222	1,089	752
Deferred tax liabilities	160	469	291	298
<b>Total non-current liabilities</b>	<b>4,816</b>	<b>10,866</b>	<b>16,754</b>	<b>15,984</b>
<b>Current liabilities</b>				
Trade payables	7,349	9,193	12,367	11,287
Other payables and accruals	2,641	269	1,008	1,945
Amount due to Directors	2,959	2,899	1,799	15
Borrowings	436	1,110	1,652	1,140
Finance lease liabilities	321	663	635	797
Dividend payable	-	-	500	-
Tax payable	21	329	1,796	120
<b>Total current liabilities</b>	<b>13,727</b>	<b>14,463</b>	<b>19,757</b>	<b>15,304</b>
<b>TOTAL LIABILITIES</b>	<b>18,543</b>	<b>25,329</b>	<b>36,511</b>	<b>31,288</b>

**Comparison between FYE 2015 and FYE 2016**

Our total liabilities increased by RM6.79 million from RM18.54 million in FYE 2015 to RM25.33 million in FYE 2016. This was due to an increase in non-current liabilities and current liabilities of RM6.05 million and RM0.74 million, respectively.

**Non-current liabilities**

The increase in non-current liabilities was mainly due to, amongst others, the following:

- increase in borrowings of RM5.09 million as a result of partial drawdown of term loans to finance, amongst others, the construction works of our Main Manufacturing Facility and the milestone payment for the purchase of Alam Puchong Land that are under development; and
- increase in finance lease liabilities of RM0.65 million for the purchase of new machinery (largely comprising a press brake machine for manufacturing large poles and forklifts).

**Current liabilities**

The increase in current liabilities was mainly due to, amongst others, the following:

- increase in trade payables of RM1.84 million, which was mainly due to the higher purchases of raw materials and supplies during the financial year for the anticipated increase of our Group's raw material and supplies requirement and steel prices in the forthcoming financial year;

**10. FINANCIAL INFORMATION (Cont'd)**

- increase in borrowings of RM0.67 million, resulting from partial drawdown of term loans to finance, amongst others, construction works of our Main Manufacturing Facility and the milestone payment for the purchase of Alam Puchong Land that are under development;
- increase in finance lease liabilities of RM0.34 million, resulting from the financing of the purchase of new machinery and motor vehicles; and
- Increase in tax payables of RM0.31 million, resulting from a higher PBT.

The increase in current liabilities was partly offset by the decrease in other payables and accruals amounting to RM2.37 million mainly as a result of milestone payment incurred in FYE 2015 for the purchase of Alam Puchong Land that are under development, which was paid in FYE 2016.

**Comparison between FYE 2016 and FYE 2017**

Our total liabilities increased by RM11.18 million from RM25.33 million in FYE 2016 to RM36.51 million in FYE 2017. This was due to an increase in non-current liabilities and current liabilities of RM5.89 million and RM5.29 million, respectively.

**Non-current liabilities**

The increase in non-current liabilities was mainly due to the increase in borrowings of RM6.20 million as a result of full drawdown of term loans to finance, amongst others, the purchase of the Adjacent Land and final milestone payment for the purchase of Alam Puchong Land.

The increase in borrowings was partially offset by the repayment of finance lease liabilities for the purchase of machinery amounting to RM0.13 million and deferred tax liabilities amounting to RM0.18 million.

**Current liabilities**

The increase in current liabilities was mainly due to, amongst others, the following:

- increase in trade payables of RM3.17 million mainly due to the higher purchases of raw materials and supplies during the financial year as we purchase raw materials in bulk to benefit from bulk discounts and in anticipation of higher steel prices in the forthcoming year;
- increase in tax payables of RM1.47 million, resulting from a higher PBT;
- increase in other payables and accruals of RM0.74 million mainly due to audit fee payable and bonus accruals; and
- increase in borrowings of RM0.54 million, as a result of full drawdown of multiple term loans to finance, amongst others, the purchase of the Adjacent Land and the final milestone payment for the purchase of Alam Puchong Land.

**Comparison between FYE 2017 and FYE 2018**

Our total liabilities decreased by RM5.22 million from RM36.51 million in FYE 2017 to RM31.29 million in FYE 2018. The decrease in total liabilities was due to the decrease in non-current liabilities and current liabilities of RM0.77 million and RM4.45 million respectively.

**10. FINANCIAL INFORMATION (Cont'd)****Non-current liabilities**

The decrease in non-current liabilities was mainly due to the decrease in borrowings as a result of progressive repayment of our term loans and finance leases.

**Current liabilities**

The decrease in current liabilities was mainly due to the following:

- decrease in amount due to Directors of RM1.78 million due to repayment to Director in FYE 2018;
- decrease in trade payables of RM1.08 million as a result of lower purchase of raw materials and supplies as compared to FYE 2017 as a result of lower sales volume; and
- decrease in tax payable of RM1.68 million as a result of higher tax instalments paid in FYE 2018 as compared to FYE 2017.

**10.2.5 Review of cash flows**

The following table sets out the summary of our historical audited combined statements of cash flows for the financial years under review:

	<b>Audited</b>			
	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>	<b>FYE</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Net cash from/(used in) operating activities	4,481	(1,403)	10,213	3,966
Net cash used in investing activities	(3,528)	(2,909)	(11,086)	(166)
Net cash (used in)/from financing activities	(133)	5,448	4,036	(5,202)
<b>Cash and cash equivalents</b>				
<b>Net changes</b>	<b>820</b>	<b>1,136</b>	<b>3,163</b>	<b>(1,402)</b>
At the beginning of the financial year	214	1,034	2,170	5,333
<b>At the end of the financial year</b>	<b>1,034</b>	<b>2,170</b>	<b>5,333</b>	<b>3,931</b>

**Commentary of cash flows****FYE 2015****Net cash from operating activities**

For FYE 2015, we generated net cash inflow from operating activities of RM4.48 million. We collected approximately RM38.53 million from our customers and other operating income received which was partially offset by cash payments of approximately RM34.05 million. Such payments were mainly for:

- approximately RM29.33 million paid to our trade suppliers;
- approximately RM3.86 million paid for our operating expenses and salaries; and
- income tax paid of RM0.86 million.



**10. FINANCIAL INFORMATION (Cont'd)****Net cash used in investing activities**

For FYE 2015, we recorded a net cash outflow of RM3.53 million from our investing activities, mainly due to outflows of RM7.14 million for the purchase of motor vehicles and capital work-in-progress of our Main Manufacturing Facility.

The outflow was however, offset by cash inflow from the proceeds of RM3.62 million from disposal of a 3 storey semi-detached factory located at Taman Industri Meranti Jaya, Puchong and 2 company cars.

**Net cash used in financing activities**

For FYE 2015, we recorded a net cash outflow of RM0.13 million from our financing activities. This was mainly due to the following outflows:

- interest payment on banking facilities of RM0.25 million; and
- repayment of finance lease liabilities and term loans of RM0.23 million and RM3.38 million respectively.

The outflow was partly offset by the cash inflows of RM1.50 million from the issuance of 1,500,000 new ordinary shares in Mestron Engineering, drawdown of term loans of RM1.91 million for the construction works of our Main Manufacturing Facility, milestone payment for the purchase of Alam Puchong Land that are under development as well as the advances extended by our Directors of RM0.32 million. As a result of repayment and drawdown of borrowings during the year, our total borrowing stood at RM5.41 million as at 31 December 2015.

**FYE 2016****Net cash used in operating activities**

For FYE 2016, we recorded a net operating cash outflow of RM1.40 million as compared to the net operating cash inflow of RM4.48 million in FYE 2015 as a result of the cash payments of approximately RM40.79 million made in FYE 2016 (compared to RM34.05 million in FYE 2015) mainly for the following:

- approximately RM28.04 million paid to our trade suppliers as compared to RM29.33 million paid in FYE 2015. as we monitor the timing of our payments to utilise the longer credit term of up to 120 days granted by our supplier of raw materials (steel plates and steel pipes). The lower amount paid to our suppliers resulted in the increase of trade payable turnover days from 65 days in FYE 2015 to 94 days in FYE 2016;
- approximately RM12.16 million paid for our operating expenses and salaries amounting to RM7.43 million (compared to RM3.86 million in FYE 2015) and operating cash outflow in FYE 2016 of RM4.73 million for deposits and advances payment for the purchase of properties as well as the settlement of other creditors; and
- income tax paid of RM0.60 million as compared to RM0.86 million paid in FYE 2015 despite incurring a higher tax expense of RM1.88 million (compared with RM0.19 million incurred in FYE 2015). The lower income tax paid in FYE 2016 was mainly due to the refund of excess income tax paid in the previous year of RM0.39 million.

**10. FINANCIAL INFORMATION (Cont'd)**

These cash payments was partially offset by the cash collected from our customers and other operating income received of approximately RM39.39 million as compared to RM38.53 million collected during FYE 2015 despite a 9.5% increase in revenue in FYE 2016 as we recorded a higher sales of RM13.67 million in the fourth quarter of FYE 2016 as compared to RM9.01 million recorded in the fourth quarter of FYE 2015. As such, a greater portion of our trade receivable as at 31 December 2016 of RM4.62 million (as compared to RM2.30 million as at 31 December 2015) has yet to reach the payment deadline and are still within the credit terms granted. This resulted in our trade receivable turnover period to increase from 93 days in FYE 2015 to 117 days in FYE 2016.

**Net cash used in investing activities**

For FYE 2016, we recorded a net cash outflow of RM2.91 million from our investing activities mainly due to the cash outflows of RM2.91 million for the construction of our Main Manufacturing Facility, which was completed in first half of 2016.

**Net cash from financing activities**

For FYE 2016, we recorded a net cash inflow in financing activities of RM5.45 million due to the drawdown of term loans of RM8.06 million mainly for the construction works of our Main Manufacturing Facility as well as the milestone payment of the purchase of Alam Puchong Land that are under development and the cash inflow of RM0.60 million from the issuance of 400,000 new ordinary shares and 200,000 new ordinary shares in Meslite and Max Lighting respectively.

The inflow was partly offset by the following cash outflows:

- repayment on terms loan and finance lease liabilities of RM2.30 million and RM0.46 million respectively; and
- interest payment on banking facilities of RM0.39 million.

As a result of the repayment and drawdown of borrowings during the year, our total borrowings stood at RM12.17 million as at 31 December 2016.

**FYE 2017****Net cash from operating activities**

For FYE 2017, we generated a net operating cash inflow of RM10.21 million as compared to the net operating cash outflow of RM1.40 million in FYE 2016 as we collected approximately RM59.74 million from our customers and other operating income received (compared to RM39.39 million during FYE 2016). The increase in collection from our customers is in line with the growth in our revenue from RM44.37 million in FYE 2016 to RM60.75 million in FYE 2017 and our improved collection procedure in FYE 2017 whereby our finance personnel and sales and marketing staff followed up closely with our customer for payment collection by sending out monthly debtors' statement and payment reminders to our customer.

The increase in collection from our customers and other operating income received was partially offset by cash payment of approximately RM49.52 million (compared to RM40.79 million during FYE 2016). Such cash payments were mainly for the following:

- approximately RM42.88 million paid to our trade suppliers as compared to RM28.04 million during FYE 2016 mainly due to the purchase of more steel plates and steel pipes in FYE 2017 in anticipation of the increase in steel prices and expansion of our storage area during FYE 2017;
- approximately RM4.72 million paid for our operating expenses and salaries (compared to RM7.43 million in FYE 2016); and

**10. FINANCIAL INFORMATION (Cont'd)**

- income tax paid of RM1.67 million as compared to RM0.60 million paid in FYE 2016. We incurred a higher tax expense of RM2.96 million in FYE 2017 (compared with RM1.88 million incurred in FYE 2016).

**Net cash used in investing activities**

For FYE 2017, we recorded a net cash outflow from investing activities of RM11.09 million mainly due to the purchase of Meslite's Factory and the Adjacent Land.

**Net cash from financing activities**

For FYE 2017, we recorded net cash inflows from financing activities of RM4.04 million due to the drawdown of terms loan of RM7.94 million mainly for the purchase of Meslite's Factory and the Adjacent Land.

The inflow was partly offset by the following outflows:

- repayment of term loans and finance lease liabilities of RM1.20 million and RM0.70 million respectively;
- repayment of advances received from Directors of RM1.10 million; and
- interest payment on banking facilities of RM0.90 million.

As a result of the repayment and drawdown of borrowings during the year, our total borrowings increased from RM12.17 million as at 31 December 2016 to RM18.75 million as at 31 December 2017.

**FYE 2018****Net cash from operating activities**

For FYE 2018, we generated a net cash inflow from operating activities of RM3.97 million as compared to the net cash inflow from operating activities of RM10.21 million during FYE 2017. The decrease in net cash inflow from operating activities of RM6.24 million was mainly due to cash payments of approximately RM58.13 million (compared to RM49.52 million during FYE 2017). Such cash payments were mainly for the following:

- approximately RM42.77 million paid to our trade supplier as compared to RM42.88 million during FYE 2017. Our trade payable turnover for FYE 2018 stood at 101 compared to 97 days during FYE 2017 as we monitor the timing of payments to our supplier as part of our cash flow management;
- Approximately RM11.16 million paid for our operating expenses and salaries as compared to RM4.72 million in FYE 2017; and
- income tax paid of RM4.61 million as compared to RM1.81 million paid in FYE 2017 due to tax instalments paid for FYE 2018 and payment of outstanding tax payable resulted from the under provision of tax instalments during FYE 2017.

The cash payment was offset by the cash collected from our customer and other operating income received of approximately RM62.09 million in FYE 2018, as compared to RM59.74 million collected during FYE 2017. The higher collection in FYE 2018 is in line with the growth in our revenue in FYE 2018 in which we recorded revenue of RM63.68 million as compared to RM60.75 million recorded in FYE 2017, representing an increase of 4.8%.

## **10. FINANCIAL INFORMATION (Cont'd)**

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

For FYE 2018, we recorded a net cash outflow from investing activities of RM0.17 million due to the net effect from the cash outflow for the purchase of motor vehicles and machinery of RM1.79 million and cash inflow from the disposal of Agricultural Land A, Agricultural Land B and motor vehicles of RM1.62 million.

### **Net cash used in financing activities**

For FYE 2018, we recorded a cash outflow in financing activities of RM5.20 million due to the following outflows:

- payment of RM0.50 million for the dividend declared during FYE 2017;
- repayment of banker's acceptance of RM4.44 million, which was mainly utilise for the purchase of goods.
- repayment of term loans and finance lease liabilities of RM1.60 million and RM0.89 million respectively;
- repayment of advances from Directors of RM1.79 million; and
- interest payment on banking facilities of RM1.07 million.

The outflow was partly offset by inflow from the drawdown of banker's acceptance of RM5.09 million mainly for the purchase of goods.

As a result of the repayment and drawdown of borrowings during the year, our total borrowings decreased from RM18.75 million as at 31 December 2017 to RM17.62 million as at 31 December 2018.

## **10.3 LIQUIDITY AND CAPITAL RESOURCES**

### **10.3.1 Working capital**

Our operations are funded by a combination of internal and external sources of funds. Our internal sources of funds comprise share capital, cash generated from our operating activities, while our external sources of funds are mainly trade facilities, i.e. bankers' acceptance.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflows, future working capital requirements, future capital expenditure requirements and the interest rate on borrowings.

Our Board is of the opinion that after taking into consideration the existing level of cash and cash equivalents and the gross proceeds raised from our IPO, our Group would have adequate working capital for a period of 12 months from the date of this Prospectus.

As at 31 December 2018, we have:

- (a) cash and bank balances of approximately RM3.93 million; and
- (b) credit facilities (excluding finance lease) up to a limit of RM5.50 million, of which RM652,000 has been drawn.

**10. FINANCIAL INFORMATION (Cont'd)**

Based on the pro forma consolidated statements of financial position of our Group as at 31 December 2018 (after the Acquisitions but before the Public Issue), our NA position stood at RM36.39 million and our gearing level is 0.48 times. Our NA position and gearing level after the Acquisitions and Public Issue (and utilisation of proceeds) are RM58.57 million and 0.23 times respectively.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors and our allowance for impairment loss in respect of our doubtful debts is low. Our finance personnel work together closely with our sales and marketing staff for the collection of these outstanding balances on a monthly basis. This measure has proven to be effective while maintaining a cordial relationship with our customers.

**10.4 BORROWINGS**

We utilise credit facilities such as finance leases for the purchase of motor vehicle and machinery and trade financing such as bankers' acceptances to partially finance our working capital. In addition, we also utilise term loans to finance the construction of factory building and purchase of properties.

Our total outstanding bank borrowings as at 31 December 2018 stood at RM17.62 million, details of which are set out as follows. All our bank borrowings are interest-bearing and denominated in RM.

	<u>Purpose</u>	<u>Tenure</u>	<u>Interest rate</u> <u>% per annum</u>	<u>As at 31</u> <u>December</u> <u>2018</u> <u>RM'000</u>
<b><u>Interest bearing short-term borrowings, payable within 1 year:</u></b>				
Term Loans	Finance the construction of factory building, purchase of lands	Between 5 to 25 years	4.7%- 12.0%	488
Bankers' acceptance	Working capital	-	8.2%	652
Finance lease liabilities	Purchase of motor vehicles and machinery	Between 1 to 5 years	2.1%-3.6%	797
			<b>Sub-total</b>	<b>1,937</b>
<b><u>Interest bearing long-term borrowings, payable after 1 year:</u></b>				
Term Loans	Finance the construction of factory building, purchase of lands	Between 5 to 25 years	4.7%- 12.0%	14,934
Finance lease liabilities	Purchase of motor vehicles and machinery	Between 1 to 5 years	2.1%-3.6%	752
			<b>Sub-total</b>	<b>15,686</b>
			<b>Total borrowings</b>	<b>17,623</b>
<b>Pro forma gearing (times)</b>				
After Acquisitions before the Public Issue <sup>(1)</sup>				0.48
After the Public Issue <sup>(2)</sup>				0.23

**10. FINANCIAL INFORMATION (Cont'd)****Notes:**

- (1) Computed based on our pro forma shareholders' funds of RM36.42 million in the pro forma consolidated statements of financial position after the Acquisitions before the Public Issue.
- (2) Computed based on our pro forma shareholders' funds of RM58.57 million in the pro forma consolidated statements of financial position after the Acquisitions and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to improve from 0.48 times (before the Public Issue) to 0.23 times (after the Public Issue and utilisation of proceeds) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue.

Our borrowings carry the following interest rates for the financial years under review:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
	<u>% per annum</u>			
<b>Floating rates</b>				
Term loans <sup>(1)</sup>	4.7% - 5.0%	4.7% - 12.0%	4.7% - 12.0%	4.7% - 12.0%
Bankers acceptance	-	8.2%	8.2%	8.2%
Finance lease liabilities	2.4% - 3.6%	2.4% - 3.4%	2.4% - 3.4%	2.1% - 3.6%

**Note:**

- (1) The significant spread in the range of interest rate for term loans in FYE 2016, FYE 2017 and FYE 2018 is due to a RM200,000 unsecured term loan of Meslite for working capital purposes with an interest rate of Base Lending Rate (6.97% as at LPD) plus 5.0%.

The following table sets out the maturities of our borrowings and finance lease liabilities:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<b>Bank borrowings</b> <sup>(1)</sup>				
Within the next 12 months	436	1,110	1,652	1,140
After the next 12 months:				
Later than 1 year but not later than 2 years	158	371	544	565
Later than 2 years but not later than 3 years	3,929	8,804	14,830	14,369
<b>Finance lease liabilities</b>				
Within the next 12 months	321	663	635	797
After the next 12 months:				
Later than 1 year but not later than 2 years	319	483	587	602
Later than 2 years but not later than 3 years	250	739	502	150

**Note:**

- (1) Including bankers' acceptance.

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the financial years under review and the subsequent financial period up to the LPD.

## 10. FINANCIAL INFORMATION (Cont'd)

As at the LPD, neither our Group nor our subsidiaries is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities.

### 10.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at the LPD, save for our bank borrowings as disclosed in Section 10.4, we do not utilise any other financial instruments.

We finance our operations mainly through cash generated from our operations, as well as external sources of funds which mainly comprise bank borrowings. Our bank borrowings (save for our finance lease liabilities) as at 31 December 2018 are based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities. Our finance lease liabilities as at 31 December 2018 are based on fixed rates.

The principal usages of these banking facilities are for working capital, purchase of raw materials, purchases of fixed assets and construction of our factory building.

### 10.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY

#### 10.6.1 Material capital commitments

Save as disclosed below and our plan to utilise part of our proceeds to expand our Main Manufacturing Facility as set out in Section 4.8.1(a) of this Prospectus, we do not have any other material capital commitment as at the LPD:

	<u>Amount</u> <u>RM'000</u>
<i>Contracted but not provided for:</i>	
Purchase of industrial land	4,280

As at the LPD, the capital commitment of our Group relate to the purchase of Light Industrial Land. We expect to fund the above capital commitment via a combination of bank borrowings and/or internally generated funds.

#### 10.6.2 Material litigation and contingent liability

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and our Directors do not know of any proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

Our Directors are not aware of any contingent liability incurred by us or our subsidiaries, which upon becoming enforceable, may have a material effect on our financial position or our subsidiaries as at the LPD.

**10. FINANCIAL INFORMATION (Cont'd)****10.7 KEY FINANCIAL RATIOS**

The key financial ratios of our Group for financial years under review are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Trade receivable turnover (days) <sup>(1)</sup>	93	117	106	117
Trade payable turnover (days) <sup>(2)</sup>	65	94	97	101
Inventory turnover (days) <sup>(3)</sup>	20	26	52	80
Current ratio (times) <sup>(4)</sup>	1.18	1.77	1.75	2.56
Gearing ratio (times) <sup>(5)</sup>	0.40	0.62	0.68	0.48

**Notes:**

- (1) Computed based on average trade receivables over revenue of the year multiplied by 365 days for the past 4 FYE 2015 to 2018.
- (2) Computed based on average trade payables over cost of sales of the year multiplied by 365 days for the past 4 FYE 2015 to 2018.
- (3) Computed based on average inventories over cost of sales of the year multiplied by 365 days for the past 4 FYE 2015 to 2018.
- (4) Computed based on current assets over current liabilities as at year end for each of the financial years under review.
- (5) Computed based on the total borrowings over total equity as at year end for each of the financial years under review.

**10.7.1 Trade receivables turnover**

The ageing analysis of our trade receivables as at 31 December 2018 is as follows:

	<b>Exceeding credit period</b>				<b>Total</b>
	<b>Within credit term</b>	<b>1 to 30 days past due but not impaired</b>	<b>31 to 60 days past due but not impaired</b>	<b>More than 60 days past due but not impaired</b>	
Trade receivables (RM'000)	14,120	1,356	1,283	5,786	22,545
% of total trade receivables (%)	62.6	6.0	5.7	25.7	100.0
Subsequent collections up to the LPD (RM'000)	11,669	1,214	1,216	4,974	19,073
Trade receivables net of subsequent collections (RM'000)	2,451	142	67	812	3,472
% of trade receivables net of subsequent collections to total trade receivables net of subsequent collections (%)	70.6	4.1	1.9	23.4	100.0
Trade receivables turnover period (Days)					117



**10. FINANCIAL INFORMATION (Cont'd)**

The normal credit period granted by our Group in respect of our trade receivables is between 30 to 90 days from the date of invoice. We may also accommodate longer credit period for customers with long term business relationships and who have higher credit worthiness. Our finance personnel and sales and marketing staff use ageing analysis and credit scoring reporting by CTOS Data Systems Sdn Bhd to monitor the credit quality of our trade receivables.

Our trade receivables turnover period for the financial years under review was between 93 to 117 days, which is slightly above our normal credit period granted to our customers as a result of extension of credit period given to our long term customers. We normally grant an extension of additional 30 days from the normal credit period of 30 to 90 days to our long term customers. The trade receivables amount that were being granted extension period will still be categorised as amount past credit terms in our aging analysis for prudence in our monitoring of trade receivables and to ensure that our finance personnel and sales and marketing staff follow up closely with the customer for collection at the end of the said extension period.

Our trade receivable turnover period increased from 93 days in FYE 2015 to 117 days in FYE 2016 as the collection from our customers recorded a marginal increase to RM38.96 million in FYE 2016 from RM38.19 million in FYE 2015, despite a 9.5% increase in revenue. We recorded total sales of RM13.71 million in the fourth quarter of FYE 2016 as compared RM9.01 million recorded in the same quarter of FYE 2015. As such, a greater portion of our total receivables as at 31 December 2016 of RM4.62 million has yet to reach the payment deadline and are still within the credit terms granted as compared to RM2.30 million as at 31 December 2015.

For FYE 2017, our trade receivable turnover period decreased from 117 days in FYE 2016 to 106 days as we collected RM59.38 million in FYE 2017 as compared to the collection of RM38.96 million in FYE 2016 which is an increase of 52.4%, while our revenue increased by 36.9%. The improved collection rate was a result of our improved collection procedures as our finance personnel and sales and marketing staff followed up closely with our customers for payment collection by sending out monthly debtors' statement and payment reminders to our customers, as opposed to FYE 2016 where we only send out payment reminders as and when needed (i.e. when payments approaching the end of credit term granted).

Our trade receivable turnover period increased from 106 days in FYE 2017 to 117 days in FYE 2018 as a result of a higher total trade receivables as at 31 December 2018 of RM22.55 million as compared with RM18.27 million as at 31 December 2017.

The higher total trade receivables as at 31 December 2018 was due to a greater portion of trade receivable that has yet to reach the payment deadline (i.e. trade receivables within credit term) of RM14.12 million as at 31 December 2018, as compared with RM4.48 million as at 31 December 2017. However, our trade receivable (more than 60 days past due) as at 31 December 2018 stood at RM5.79 million as compared with RM6.65 million as at 31 December 2017. We collected RM62.02 million in FYE 2018, which is higher as compared to the collection of RM59.74 million in FYE 2017.

Subsequent to FYE 2018 and up to LPD, we have collected RM19.07 million from our customers. The total trade receivables outstanding from our customers as at LPD stood at RM3.47 million.

**10. FINANCIAL INFORMATION (Cont'd)**

The percentage of customers (in terms of trade receivable outstanding) that qualified for extension of credit period for the financial years under review are as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
Percentage of customers qualified for extended credit period to the total trade receivable outstanding <sup>(1)(2)</sup>	37.7%	32.9%	38.0%	38.5%
Total trade receivables for customers qualified for extended credit period (RM'000)	4,323	5,560	6,950	8,683
Subsequent total collections up to LPD from customers qualified for extended credit period (RM'000)	4,323	5,560	6,950	6,763

**Notes:**

- (1) Computed based on total trade receivable outstanding from customers qualified for extended credit period over the Group's total trade receivable outstanding for the financial years under review.
- (2) We grant our customers with long term business relationships and higher credit worthiness an extended credit period of up to 120 days on an invoice to invoice basis. We generally grant the credit period extension to invoices that have past the normal credit period of 30 to 90 days from the date of invoices upon the request from the said customers. The amount of invoices past due from these customers that were granted with extended credit period for the financial years under review are as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
<i>Amount of invoices past due with extended credit period (RM'000)</i>	<i>2,640</i>	<i>2,680</i>	<i>2,879</i>	<i>5,665</i>
<i>Percentage of the total trade receivable outstanding</i>	<i>23.0%</i>	<i>15.8%</i>	<i>15.8%</i>	<i>25.1%</i>

The total trade receivable past due for the financial years under review are as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
Total trade receivable past due (RM'000)	9,194	12,290	13,701	8,425

Our total trade receivables past due as at 31 December 2018 is RM8.43 million, representing 37.4% of our total trade receivables as at 31 December 2018. Subsequent to 31 December 2018 and up to the LPD, we have collected RM19.07 million, representing 84.6% of the total trade receivables as at 31 December 2018.

As at LPD, the total trade receivables with more than 60 days past due amounted to RM0.81 million. Out of this trade receivable past due of RM0.81 million, RM0.50 million (approximately 61.7%) relates to our manufacturing segment and RM0.31 million (approximately 38.3%) relates to our trading segment. The average number of days past due for this trade receivable amount of RM0.81 million is approximately 92 days.

**10. FINANCIAL INFORMATION (Cont'd)**

Our Group has not encountered any major disputes with our debtors. With respect to overdue trade receivables in the past, we have generally been able to recover payment eventually. As such, our Board is of the view that all trade receivables overdue but not impaired are still recoverable. Our management closely monitors the recoverability of our overdue trade receivables on a regular basis, and, when appropriate, provides for impairment of these trade receivables.

Our allowances for doubtful debts for the financial years under review are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Impairment loss on receivables	-	-	(1)385	(2)126

**Notes:**

- (1) Relates to outstanding trade receivable owing by 4 customers for more than 1 year from the date of invoice and recoverability is deemed to be doubtful by our management.
- (2) Relates to the allowance of expected credit loss recorded in FYE 2018 of RM0.08 million and deposit paid of RM0.05 million to a firm of solicitors as stakeholder for the acquisition of a piece of land that did not materialise as the vendor was unable to obtain State consent for the transfer of land ownership. The firm of solicitors has failed to return the deposit to us and we are in the midst of taking legal action against them to recover the said amount and hence we have not written off the deposit paid to the firm of solicitors.

Trade receivables that are impaired are debts outstanding beyond its credit period and doubtful in its recoverability. Our management will nonetheless, still continue to recover those trade debts that were impaired through follows up with customers.

Impairment is made under the following circumstances:

- (i) if trade receivable has been outstanding for more than 1 year after the date of invoice; or
- (ii) if our management believes that the recoverability of the trade receivable is doubtful (i.e. in the situation where our debtors have filed for bankruptcy or have ceased operations).

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**10. FINANCIAL INFORMATION (Cont'd)****10.7.2 Trade payables turnover**

The ageing analysis of our trade payables as at 31 December 2018 is as follows:

	<u>Exceeding credit period</u>				<b>Total</b>
	<b>Within credit term</b>	<b>1 to 30 days past due</b>	<b>31 to 60 days past due</b>	<b>More than 60 days past due</b>	
Trade payables (RM'000)	9,614	1,624	49	-	11,287
% of total trade payables (%)	85.2	14.4	0.4	-	100.0
Subsequent payments up to the LPD (RM'000)	9,614	1,624	49	-	11,287
Trade payables net of subsequent payments (RM'000)	-	-	-	-	-
% of trade payables net of subsequent payments to total trade payables net of subsequent payments (%)	-	-	-	-	-
Turnover period (Days)					101

The normal credit terms granted by our trade creditors to our Group are between 30 to 120 days from the date of invoice.

For the past 4 FYE 2015 to 2018 under review, the trade payables turnover period ranges around 65 days to 101 days, which is within the credit terms granted by our suppliers.

In FYE 2016, our trade payable turnover period increased to 94 days from 65 days in FYE 2015 as a result of higher purchases of raw materials (steel plates and steel pipes) and supplies for the anticipated increase of our Group's raw material and supplies requirement and steel prices in the forthcoming financial year. Our suppliers of raw materials (steel plates and steel pipes) generally grant us longer credit terms of up to 120 days.

Our trade payable turnover period remained constant between FYE 2016 and FYE 2017 of 94 days and 97 days respectively.

Our trade payable turnover period increased from 97 days in FYE 2017 to 101 days in FYE 2018 mainly due to amount owing to 2 of our major suppliers for outdoor lighting products as we monitor the timing of payments to the said supplier as part of our cash flow management. As at the LPD, the said amount has been fully settled.

As at the LPD, there are no disputes in respect of our trade payables and no legal action has been initiated by our suppliers to demand for payment.

**10.7.3 Inventories**

Our inventories comprise raw materials (i.e. steel plates and steel pipes), work-in-progress (steel poles that are yet to be galvanised) and finished goods (including completed standard street light poles, decorative light poles and specialty poles as well as outdoor lighting products).

**10. FINANCIAL INFORMATION (Cont'd)**

A summary of our inventories for the past FYE 2015 to 2018 and as at 31 March 2019 are set out below:

	Audited				Unaudited
	FYE 2015	FYE 2016	FYE 2017	FYE 2018	As at 31
	RM'000	RM'000	RM'000	RM'000	March 2019
					RM'000
<b>Raw materials</b>	<b>1,089</b>	<b>1,335</b>	<b>7,221</b>	<b>6,021</b>	<b>8,668</b>
<b>Work-in-progress</b>	<b>866</b>	<b>1,111</b>	<b>466</b>	<b>2,021</b>	<b>1,437</b>
- <i>Standard street light poles</i>	798	1,025	412	525	164
- <i>Decorative light poles</i>	-	-	-	920	693
- <i>Specialty poles</i>	68	86	54	576	580
<b>Finished goods</b>	<b>26</b>	<b>150</b>	<b>1,348</b>	<b>1,665</b>	<b>2,526</b>
- <i>Standard street light poles</i>	26	54	781	559	755
- <i>Decorative light poles</i>	-	-	-	90	105
- <i>Specialty poles</i>	-	-	-	148	831
- <i>Supplies (trading segment)</i>	-	96	567	868	835
<b>Total</b>	<b>1,981</b>	<b>2,596</b>	<b>9,035</b>	<b>9,707</b>	<b>12,631</b>
Cost of sales	34,163	31,947	40,552	42,768	11,200
Inventories turnover (days)	20	26	52	80	90

As part of our objective to ensure timely delivery of our products to our customer, we normally stock up certain work-in-progress (usually standard street light poles) and finished products (typically outdoor lighting products) as and when there is an anticipation of order for the said products based on the feedback from our marketing activities. This is mainly to ensure smooth operation and minimal disruption to our manufacturing operations and shorter delivery lead time. Besides, we also constantly monitor the market steel prices and stock up on raw materials such as steel plates in order to minimise our exposure to the fluctuation in steel prices. We usually stock up on our inventories based on the anticipation of increased order from our customers as well as an increase in steel market prices (for raw materials). We have a policy to maintain between 2 to 3 months of raw materials requirements (based on purchase order received and feedback from our marketing activities) for our manufacturing operation.

Our finished standard street light poles, decorative light poles and specialty poles that are kept as inventories are typically products that are awaiting to be delivered to our customers. We typically do not stock up on finished steel pole products as all of our finished goods are manufactured based on specification required by our customers, which is different from order to order basis.

We perform stocktake and conduct management meeting to review the stockholding level and inventory ageing analysis on a quarterly basis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving, obsolete and defected stocks. Impairment of stock is made under the following circumstances:

- (i) if the stock (mainly raw materials and supplies) are defected and refund from suppliers are unlikely; or
- (ii) obsolete and slow moving stocks that have been idle and stored for more than 1 year.

**10. FINANCIAL INFORMATION (Cont'd)**

Our inventory turnover period increased from 20 days in FYE 2015 to 26 days in FYE 2016 as our inventories of raw materials and work-in-progress increases. The increase in inventories of raw materials and work-in-progress is mainly due to the increase in storage space from our relocation to Main Manufacturing Facility in April 2016 and the stocking up of raw material as a result of the anticipation for increased order due to the positive feedbacks from our marketing activities and higher steel prices in FYE 2017.

The higher inventory turnover period for FYE 2017 of 52 days was mainly due to the stock up on raw materials comprising steel plates and steel pipes in view of the expansion in our storage area in FYE 2017 and anticipation of steel price increase in 2018 based on feedback from our suppliers.

In FYE 2018, our inventory turnover period increased to 80 days mainly due to an increase in the work-in-progress inventory level of orders received for decorative light poles and specialty poles. The balance of work-in-progress inventory for decorative light poles and specialty poles as at the LPD and subsequent to the delivery on our customers' order amounted to RM1.21 million.

**10.7.4 Current ratio**

Our current ratio, current assets and current liabilities as at the end of the financial years under review are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Current assets	16,177	25,641	34,615	39,251
(Current liabilities)	(13,727)	(14,463)	(19,757)	(15,304)
<b>Net current assets</b>	<b>2,450</b>	<b>11,178</b>	<b>14,858</b>	<b>23,947</b>
Current ratio (times)	1.18	1.77	1.75	2.56

Our current ratio ranges from 1.18 times to 2.56 times for the financial years under review, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

**10.7.5 Gearing ratio**

Our gearing ratio throughout the financial years under review is as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Total borrowings (RM'000)	5,413	12,170	18,750	17,623
Total equity (RM'000)	13,606	19,487	27,524	36,831
Gearing ratio (times)	0.40	0.62	0.68	0.48

Our gearing ratio ranges around 0.40 times to 0.68 times for the financial years under review.

In FYE 2016, our gearing ratio increased from 0.40 times as at FYE 2015 to 0.62 times mainly due to the increase in our total borrowings from the drawdown of term loans to finance, amongst other, the construction works of our Main Manufacturing Facility and the milestone payment for the purchase of Alam Puchong Land that are under development.

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**10. FINANCIAL INFORMATION (Cont'd)**

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In FYE 2017, our gearing ratio increased from 0.62 times as at FYE 2016 to 0.68 times as our total borrowings increased to RM18.75 million due to the drawdown of multiple term loans during the year to finance, amongst others, the purchase of Adjacent Land and the final milestone payment for the purchase of Alam Puchong Land.

Our total borrowings in FYE 2018 of RM17.62 million is lower than our total borrowings of RM18.75 million recorded in FYE 2017 while our total equity attributable to the owners of the Company increased from RM27.52 million to RM36.83 million during the same period due to the PAT of RM8.54 million recorded in FYE 2017. This resulted in a lower gearing ratio of 0.48 times as compared to 0.68 times in FYE 2017.

**10.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES**

During the financial years under review, prices of our raw materials have been subject to changes in government regulation. As an illustration, the Government of Malaysia had announced a progressive liberalisation of hot rolled steel plates, with a provisional safeguard duty imposed from July 2015 to July 2016 of 17.4%, July 2016 to July 2017 of 13.9% and July 2017 to July 2018 of 10.4%. The liberalisation of steel industry in Malaysia encouraged imports of hot rolled coil steel products (which includes steel plates), resulting in reduced steel plate prices, thus consequently leading to a decrease in our cost of goods sold.

Save from the abovementioned, there were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years under review.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 8.

**10.9 IMPACT OF INFLATION**

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of our operation as during the financial years under review, our PBT margin grew from 5.8% in FYE 2015 to 19.2% in FYE 2018. However, any significant increase of cost of sales in the future may adversely affect our operations and performance in the event we are unable to pass on higher costs to our customers through an increase in selling prices.

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**10. FINANCIAL INFORMATION (Cont'd)****10.10 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES****10.10.1 Impact of foreign exchange rates**

We are subjected to the risk of fluctuation in foreign exchange rates as we derive a portion of our sales that are denominated in foreign currency from our overseas customers. The following is the breakdown of our sales based on currency denomination throughout the financial years under review:

	<b>Audited</b>							
	<b>FYE 2015</b>		<b>FYE 2016</b>		<b>FYE 2017</b>		<b>FYE 2018</b>	
	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>	<b>RM'000</b>	<b>%</b>
Sales transacted in RM	34,991	86.3	36,857	83.1	56,325	92.7	59,000	92.7
Sales transacted in AUD	3,666	9.1	3,735	8.4	2,083	3.4	1,171	1.8
Sales transacted in USD	47	0.1	1,086	2.4	1,105	1.8	2,379	3.7
Sales transacted in SGD	1,836	4.5	2,696	6.1	1,234	2.1	599	0.9
Sales transacted in BND	-	-	-	-	-	-	400	0.6
Sales transacted in NZD	-	-	-	-	-	-	131	0.2
<b>Total</b>	<b>40,540</b>	<b>100.0</b>	<b>44,374</b>	<b>100.0</b>	<b>60,747</b>	<b>100.0</b>	<b>63,680</b>	<b>100.0</b>

For the financial years under review, our purchases that are denominated in foreign currencies ranged from 0.2% to 1.1% of our total purchases.

However, our financial performance for the financial years under review was not materially affected by the impact of foreign exchange rates. Further, we have recorded gain on foreign exchange during the financial years under review as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Gain on foreign exchange	343	430	343	*

**Note:**

\* Negligible

Moving forward, we may be subject to higher exposure to fluctuation in foreign exchange rates in view of the anticipated increase in overseas sales from our plan to expand our presence in overseas markets as stated in Section 6.19.

**10.10.2 Impact of interest rates**

Interest coverage ratio measures the number of times a company can make its interest payments given its profit before interest and tax. The interest coverage ratio for FYE 2015 to 2018 are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Interest coverage ratio (times) <sup>(1)</sup>	10.57	19.16	13.73	12.38

**Note:**

<sup>(1)</sup> Computed based on EBIT over finance costs for the financial years under review.



**10. FINANCIAL INFORMATION (Cont'd)**

Our interest coverage ratio of between 10.57 to 19.16 times for the financial years under review indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations.

In FYE 2018, our interest coverage ratio experienced a decrease from 13.73 times in FYE 2017 to 12.38 times in FYE 2018 due to the 18.8% increase in finance cost (from RM0.90 million in FYE 2017 to RM1.07 million in FYE 2018) mainly due higher interest expense on our term loan facilities arising from the purchase of new machinery and equipment in FYE 2018.

Our financial results for the financial years under review were not materially affected by fluctuations in interest rates. However, major increase in interest rates would raise the cost of borrowings and our finance costs for our purchases of raw materials, which may have an adverse effect on the performance of our Group.

**10.10.3 Impact of commodity prices**

Our Group is exposed to fluctuation in prices of steel material such as steel plates and steel pipes, all of which are affected by factors beyond our control, which amongst others, include the state of the global economy, the level of industrial development worldwide, competition in industrial production/levies imposition of import duties/levies and foreign currency fluctuations. Any increase in the price of raw materials will increase our cost of sales and ultimately, our profitability.

**10.11 ORDER BOOK**

Due to the nature of our business, our Group does not maintain an order book. Revenue is generated as and when we deliver our products to our customers. As at LPD, our outstanding and unfulfilled purchase orders amounted to approximately RM31.55 million, as detailed below:

	<b>Countries</b>			
	<b>Malaysia</b>	<b>Australia</b>	<b>Korea</b>	<b>Others<sup>(1)</sup></b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Standard street light poles	5,222	58	-	14
Decorative light poles	5,471	46	-	-
Specialty poles	6,714	-	6,565	-
Outdoor lighting products	7,460	-	-	-

**Note:**

(1) Includes Singapore and Myanmar.

The said purchase orders are expected to be fulfilled by the third quarter of 2019.

We generally agree on the delivery timeline with our customers before accepting any purchase orders. We do not accept purchase orders that we are unable to fulfil within the agreed timeline.

**10.12 DIRECTORS' DECLARATION ON OUR FINANCIAL PERFORMANCE**

Our Board is of the opinion that:

- (a) Our revenue will remain sustainable with an upward growth trend, in line with the outlook of the street light pole industry as set out in the IMR Report;

## **10. FINANCIAL INFORMATION (Cont'd)**

- (b) Our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our future plans as stated in Section 6.19; and
- (c) Our financial resources will strengthen, taking into account the amount to be raised from the IPO as well as internally generated funds. We may consider debt funding for our business expansion should the need arises.

In addition to the above, our Board is not aware of any circumstances which would result in a significant decline in our revenue and GP margins or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

### **10.13 TREND INFORMATION**

Based on our track record for the past financial years under review, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

- (a) For the past financial years under review, majority of our revenue was derived from the manufacturing segment. In view of our plan to expand our manufacturing segment as stated in Section 4.8.1 and 6.19 of this Prospectus, we expect the manufacturing segment to continue contributing significantly to our revenue in the future;
- (b) The largest component of our cost of sales is raw material. The cost of raw material is dependent on global steel prices which are affected by factors beyond our control. As such, our cost of sales will fluctuate in tandem with the steel prices.

As at the LPD, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

- (a) 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 financial performance, position and operations, other than those discussed in this Section 6 and Section 8 of this Prospectus.
- (b) Material commitments for capital expenditure as set out in Section 10.6.1 of this Prospectus;
- (c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 8 of this Prospectus; and

Our Board is optimistic about the future prospects of our Group given our competitive positions set out in Section 6.9 and our business strategies as set out in Section 6.19.

### **10.14 DIVIDENDS**

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Moving forward, the payment of dividends or other distributions by our subsidiaries will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of directors deem relevant.

**10. FINANCIAL INFORMATION (Cont'd)**

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. It is our intention to pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including our financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board.

Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

Dividends declared for the past FYE 2015 to 2018 are as follows:

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Dividends declared	-	-	500	-

**10.15 CAPITALISATION AND INDEBTEDNESS**

The table below summarises our capitalisation and indebtedness as at 31 March 2019 and after adjusting for the effects of the Acquisitions and Public Issue including the utilisation of proceeds from the Public Issue.

	<b>Mestron Holdings</b>	<b>I</b>	<b>II</b>	<b>III</b>
	<b>As at 31 March 2019 (Unaudited)</b>	<b>After Acquisitions</b>	<b>After I and Public Issue</b>	<b>After II and utilisation of proceeds</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Capitalisation</b>				
Total equity	(73)	36,349	61,629	58,529
<b>Total capitalisation</b>	<b>(73)</b>	<b>36,349</b>	<b>61,629</b>	<b>58,529</b>
<b>Indebtedness <sup>(1)</sup></b>				
<b>Current</b>				
Borrowings	-	1,140	1,140	977
Finance lease liabilities	-	797	797	797
<b>Non-current</b>				
Borrowings	-	14,934	14,934	11,097
Finance lease liabilities	-	752	752	752
<b>Total indebtedness</b>	<b>-</b>	<b>17,623</b>	<b>17,623</b>	<b>13,623</b>
<b>Total capitalisation and indebtedness</b>	<b>(73)</b>	<b>53,972</b>	<b>79,252</b>	<b>72,152</b>
<b>Gearing ratio <sup>(2)</sup> (times)</b>	<b>-</b>	<b>0.48</b>	<b>0.29</b>	<b>0.23</b>

**Notes:**

(1) All of our indebtedness are secured.

(2) Calculated based on total indebtedness divided by total capitalisation.

**11. ACCOUNTANTS' REPORT**



Date: 2 May 2019

The Board of Directors  
Mestron Holdings Berhad  
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Taman Perindustrian Meranti Utama  
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Dear Sirs,

**Reporting Accountants' opinion on the financial information contained in the accountants' report of Mestron Holdings Berhad ("the Company" or "Mestron")**

We have audited the financial information ("Financial Information") of Mestron Holdings Berhad and its subsidiaries (collectively "the Group") which comprises the combined statements of financial position of the Group as at 31 December 2015, 2016, 2017, 2018 and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended 31 December 2015, 2016, 2017, 2018 and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 65.

In our opinion, the accompanying Financial Information give a true and fair view of the financial position of the Group as at 31 December 2015, 2016, 2017, 2018 and of its financial performance and cash flows for the financial years then ended 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.

*Independence and other ethical responsibilities*

We are independent of the Group in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**11. ACCOUNTANTS' REPORT (Cont'd)***Responsibilities of the Directors for the Financial Information*

The Directors of the Group are responsible for the preparation of the Financial Information of the Group that give a true and fair view in accordance with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"). The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of Financial Information of the Group 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 intent to liquidate the Group or 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 an accountants' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial 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.
- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

**11. ACCOUNTANTS' REPORT (Cont'd)**



*Reporting Accountants' Responsibility for the Audit of Financial Information (cont'd)*

We also (cont'd):-

- Evaluate the overall presentation, structure and content of the Financial Information of the Group, including the disclosures, and whether the Financial Information of the Group 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 and 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 has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Mestron Holdings Berhad in connection with the listing of and quotation for the entire enlarged issued share capital of Mestron Holdings Berhad on the Ace Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

GRANT THORNTON MALAYSIA  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

LIAN TIAN KWEE  
(NO: 02943/05/2019 J)  
CHARTERED ACCOUNTANT

**11. ACCOUNTANTS' REPORT (Cont'd)**

**MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF FINANCIAL POSITION**

	<u>Note</u>	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	15,972,219	19,175,288	29,419,791	23,135,620
Investment properties	6	-	-	-	1,355,210
<b>Total non-current assets</b>		<u>15,972,219</u>	<u>19,175,288</u>	<u>29,419,791</u>	<u>24,490,830</u>
<b>Current assets</b>					
Inventories	7	1,980,499	2,595,997	9,034,986	9,706,621
Trade receivables	8	11,491,345	16,909,904	18,273,255	22,545,244
Other receivables	9	965,377	3,922,612	1,936,666	3,016,232
Tax recoverable		706,316	42,361	36,960	52,454
Cash and bank balances		<u>1,033,763</u>	<u>2,169,527</u>	<u>5,333,052</u>	<u>3,930,897</u>
<b>Total current assets</b>		<u>16,177,300</u>	<u>25,640,401</u>	<u>34,614,919</u>	<u>39,251,448</u>
Asset held-for-sales	10	-	-	-	4,376,920
<b>TOTAL ASSETS</b>		<u><u>32,149,519</u></u>	<u><u>44,815,689</u></u>	<u><u>64,034,710</u></u>	<u><u>68,119,198</u></u>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	11	2,600,000	3,200,000	3,200,000	3,200,002
Retained earnings		<u>11,006,203</u>	<u>16,286,463</u>	<u>24,324,219</u>	<u>33,630,757</u>
<b>TOTAL EQUITY</b>		<u>13,606,203</u>	<u>19,486,463</u>	<u>27,524,219</u>	<u>36,830,759</u>

The accompanying notes form an integral part of the financial statements.

**11. ACCOUNTANTS' REPORT (Cont'd)**

**MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

	<u>Note</u>	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>EQUITY AND LIABILITIES</b>					
<b>(CONT'D)</b>					
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	12	4,086,963	9,175,240	15,374,019	14,933,783
Finance lease liabilities	13	568,995	1,222,357	1,088,764	752,473
Deferred tax liabilities	14	160,000	469,000	291,000	298,000
<b>Total non-current liabilities</b>		<u>4,815,958</u>	<u>10,866,597</u>	<u>16,753,783</u>	<u>15,984,256</u>
<b>Current liabilities</b>					
Trade payables	15	7,348,923	9,192,595	12,366,575	11,287,264
Other payables and accruals	16	2,641,388	269,348	1,008,163	1,946,134
Amount due to Directors	17	2,959,161	2,899,161	1,799,161	14,500
Borrowings	12	435,984	1,110,062	1,652,394	1,139,601
Finance lease liabilities	13	320,948	662,998	634,715	797,025
Dividend payable	26	-	-	500,000	-
Tax payable		20,954	328,465	1,795,700	119,659
<b>Total current liabilities</b>		<u>13,727,358</u>	<u>14,462,629</u>	<u>19,756,708</u>	<u>15,304,183</u>
<b>Total liabilities</b>		<u>18,543,316</u>	<u>25,329,226</u>	<u>36,510,491</u>	<u>31,288,439</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>32,149,519</u>	<u>44,815,689</u>	<u>64,034,710</u>	<u>68,119,198</u>

The accompanying notes form an integral part of the financial statements.



**11. ACCOUNTANTS' REPORT (Cont'd)**

**MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	<u>Note</u>	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Revenue	18	40,540,598	44,373,958	60,747,287	63,680,038
Cost of sales		<u>(34,163,276)</u>	<u>(31,946,575)</u>	<u>(40,552,024)</u>	<u>(42,767,840)</u>
Gross profit		6,377,322	12,427,383	20,195,263	20,912,198
Other operating income	19	833,250	492,284	396,770	627,788
Selling and distribution expenses		(428,424)	(584,067)	(868,589)	(936,233)
Administrative expenses		(4,114,812)	(4,725,511)	(6,683,588)	(7,058,819)
Other operating expenses		(52,674)	(55,541)	(637,665)	(270,113)
Finance costs	20	<u>(247,073)</u>	<u>(393,684)</u>	<u>(902,316)</u>	<u>(1,072,325)</u>
Profit before tax	21	2,367,589	7,160,864	11,499,875	12,202,496
Tax expense	22	<u>(191,369)</u>	<u>(1,880,604)</u>	<u>(2,962,119)</u>	<u>(2,895,958)</u>
Profit for the financial years		2,176,220	5,280,260	8,537,756	9,306,538
Other comprehensive income		-	-	-	-
Total comprehensive income for the financial years		<u>2,176,220</u>	<u>5,280,260</u>	<u>8,537,756</u>	<u>9,306,538</u>
Earnings per share					
- Basic (sen)	23	<u>1.98</u>	<u>1.71</u>	<u>2.67</u>	<u>2.91</u>
- Diluted (sen)	23	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>

\* Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

The accompanying notes form an integral part of the financial statements.

**11. ACCOUNTANTS' REPORT (Cont'd)**

**MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CHANGES IN EQUITY**

	<u>Note</u>	<u>Share capital RM</u>	<u>Retained earnings RM</u>	<u>Total RM</u>
<b>Balance at 1 January 2015</b>		1,100,000	8,829,983	9,929,983
Total comprehensive income for the financial year		-	2,176,220	2,176,220
<i>Transaction with owners:-</i>				
Issuance of ordinary shares		<u>1,500,000</u>	-	<u>1,500,000</u>
<b>Balance at 31 December 2015</b>		2,600,000	11,006,203	13,606,203
Total comprehensive income for the financial year		-	5,280,260	5,280,260
<i>Transaction with owners:-</i>				
Issuance of ordinary shares	11	<u>600,000</u>	-	<u>600,000</u>
<b>Balance at 31 December 2016</b>		3,200,000	16,286,463	19,486,463
Total comprehensive income for the financial year		-	8,537,756	8,537,756
<i>Transaction with owners:-</i>				
Dividend to owners of the Company	26	-	<u>(500,000)</u>	<u>(500,000)</u>
<b>Balance at 31 December 2017</b>		3,200,000	24,324,219	27,524,219
Total comprehensive income for the financial year		-	9,306,538	9,306,538
<i>Transaction with owners:-</i>				
Issuance of ordinary shares	11	<u>2</u>	-	<u>2</u>
<b>Balance at 31 December 2018</b>		<u>3,200,002</u>	<u>33,630,757</u>	<u>36,830,759</u>

The accompanying notes form an integral part of the financial statements.

**11. ACCOUNTANTS' REPORT (Cont'd)**

**MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS**

	<u>Note</u>	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>OPERATING ACTIVITIES</b>					
Profit before tax		2,367,589	7,160,864	11,499,875	12,202,496
<b>Adjustments for:-</b>					
Allowance for obsolete inventories		-	-	244,741	-
Impairment loss on receivables		-	-	384,535	125,574
Amortisation of investment property		-	-	-	18,308
Bad debts recovered		(22,000)	(7,171)	-	-
Bad debts written off		15,596	44,276	-	38,767
Depreciation of property, plant and equipment		756,485	1,162,109	1,404,048	1,469,562
Interest expenses		247,073	393,684	902,316	1,072,325
Interest income		(2,590)	(5,770)	(20,772)	-
Gain on disposal of property, plant and equipment		(407,581)	-	(21,999)	(51,407)
Reversal of impairment loss on trade receivables		(56,261)	(44,276)	-	(256,558)
Reversal of allowance for obsolete inventories		-	-	-	(244,741)
Operating profit before working capital changes		2,898,311	8,703,716	14,392,744	14,374,326
<b>Changes in working capital:-</b>					
Inventories		(180,046)	(615,498)	(6,683,730)	(426,894)
Receivables		(1,900,412)	(8,362,853)	258,832	(5,259,338)
Payables		4,525,812	(528,369)	3,924,460	(141,340)
Cash generated from/(used in) operations		5,343,665	(803,004)	11,892,306	8,546,754
Tax refunded		50,165	391,621	129,452	27,235
Tax paid		(912,555)	(991,758)	(1,808,600)	(4,607,728)
Net cash from/(used in) operating activities		4,481,275	(1,403,141)	10,213,158	3,966,261

The accompanying notes form an integral part of the financial statements.

**11. ACCOUNTANTS' REPORT (Cont'd)****MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)**COMBINED STATEMENTS OF CASH FLOWS (CONT'D)**

	<u>Note</u>	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	A	(7,144,100)	(2,909,198)	(11,107,502)	(1,785,280)
Proceeds from disposal of property, plant and equipment		<u>3,616,040</u>	<u>-</u>	<u>22,000</u>	<u>1,619,298</u>
Net cash used in investing activities		<u>(3,528,060)</u>	<u>(2,909,198)</u>	<u>(11,085,502)</u>	<u>(165,982)</u>
<b>FINANCING ACTIVITIES</b>					
Repayment of finance lease liabilities		(233,859)	(460,568)	(702,926)	(892,421)
Dividend paid		-	-	-	(500,000)
Advance from/(Repayment to) Directors		316,461	(60,000)	(1,100,000)	(1,784,661)
Drawdown of borrowings		1,914,472	8,060,914	7,940,349	5,089,000
Repayment of borrowings		(3,383,239)	(2,298,559)	(1,199,238)	(6,042,029)
Interest paid		(247,073)	(393,684)	(902,316)	(1,072,325)
Issuance of shares		<u>1,500,000</u>	<u>600,000</u>	<u>-</u>	<u>2</u>
Net cash (used in)/from financing activities		<u>(133,238)</u>	<u>5,448,103</u>	<u>4,035,869</u>	<u>(5,202,434)</u>
<b>CASH AND CASH EQUIVALENTS</b>					
Net changes		819,977	1,135,764	3,163,525	(1,402,155)
At the beginning of the financial years		<u>213,786</u>	<u>1,033,763</u>	<u>2,169,527</u>	<u>5,333,052</u>
At the end of the financial years		<u>1,033,763</u>	<u>2,169,527</u>	<u>5,333,052</u>	<u>3,930,897</u>

**NOTES TO THE STATEMENT OF CASH FLOWS****A Purchase of Property, Plant and Equipment**

The Group acquired property, plant and equipment with an aggregate cost of RM2,503,720 (2017: RM11,648,552; 2016: RM4,365,178; 2015: RM8,044,100) of which RM718,440 (2017: RM541,050; 2016: RM1,455,980; 2015: RM900,000) was acquired by means of finance lease arrangement. Cash payment of RM1,785,280 (2017: RM11,107,502; 2016: RM2,909,198; 2015: RM7,144,100) was made to purchase of property, plant and equipment.

The accompanying notes form an integral part of the financial statements.

**11. ACCOUNTANTS' REPORT (Cont'd)**

**MESTRON HOLDINGS BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL INFORMATION**

**1. GENERAL INFORMATION****1.1 Introduction**

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Mestron Holdings Berhad (“Mestron”) in connection with the listing of and quotation for the entire enlarged issued share capital of Mestron on the Ace Market of Bursa Malaysia Securities Berhad (“Bursa Securities”) (hereinafter defined as “the Listing”), and should not be relied upon for any other purposes.

**1.2 Background**

The Company was incorporated on 18 May 2018 as a public limited liability company and domiciled in Malaysia. The registered office is located at Suite 10.02, Level 10, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur.

The principal place of business of the Company is located at PT 50102, Jalan MU 1/9, Seksyen 10, Taman Perindustrian Meranti Utama, 47120 Puchong, Selangor Darul Ehsan.

**1.3 Share capital**

Issued share capital

The changes in Mestron’s issued share capital since its date of incorporation and up to 2 April 2019 are as follows:-

<b>Date of issue</b>	<b>Purpose of issue</b>	<b>Class of shares</b>	<b>Number of shares</b>	<b>Term of issue</b>
18 May 2018	Subscribers’ shares	Ordinary shares	2	Cash

**1.4 Principal activities**

Mestron’s principal activities are investment holding and provision of management services.

The subsidiaries of Mestron as of the date of this report are as follows:-

<b>Name of company</b>	<b>Effective ownership</b>	<b>Principal activities</b>	<b>Date of incorporation</b>	<b>Country of incorporation</b>
<b><u>Subsidiaries</u></b>				
Mestron Engineering Sdn. Bhd. (“MESB”)	100%	Manufacturing of steel poles as well as trading of outdoor lighting products.	10 September 2002	Malaysia

**11. ACCOUNTANTS' REPORT (Cont'd)****1. GENERAL INFORMATION (CONT'D)****1.4 Principal activities (cont'd)**

The subsidiaries of Mestron as of the date of this report are as follows (cont'd):-

<b>Name of company</b>	<b>Effective ownership</b>	<b>Principal activities</b>	<b>Date of incorporation</b>	<b>Country of incorporation</b>
<b><u>Subsidiaries of MESB</u></b>				
Max Lighting Solution Sdn. Bhd. ("MLSSB")	100%	Trading of outdoor lighting products.	26 February 2016	Malaysia
Meslite Sdn. Bhd. ("MSB")	100%	Manufacturing of decorative compound light poles.	7 June 2010	Malaysia

There was no significant change in the nature of the principal activities of Mestron and its subsidiaries during the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 under audit of this report.

**1.5 The Acquisitions****Acquisition under MESB**

- (a) On 16 March 2018, a subsidiary, MESB acquired 140,000 ordinary shares of RM1.00 each, representing 70% equity interest in MLSSB for a total cash consideration of RM140,000.
- (b) On 3 April 2018, a subsidiary, MESB acquired 300,000 ordinary shares of RM1.00 each, representing 60% equity interest in MSB for a total cash consideration of RM300,000.
- (c) On 22 January 2019, a subsidiary, MESB entered into share sale agreements ("Agreements") to acquire the remaining 30% and 40% equity interest in MLSSB and MSB from its minority interest shareholders for a cash consideration of RM134,907 and RM358,320 respectively.

Upon successful of the acquisition, MLSSB and MSB will become wholly-owned subsidiary of MESB.

**Acquisition under Mestron**

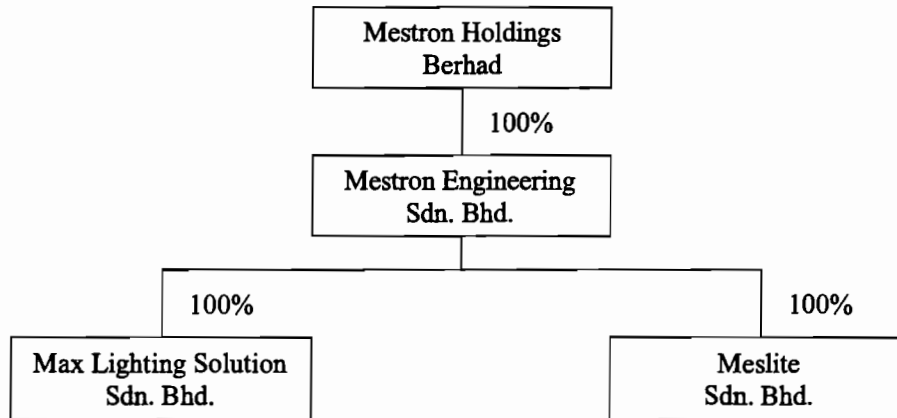
The Mestron Group will be formed pursuant to the completion of the following acquisition by Mestron subsequent to the listing and quotation on the Ace Market of Bursa Malaysia Securities Berhad.

Mestron acquired the entire issued share capital of MESB comprising 2,500,000 ordinary shares. ("Acquisition")

The aggregate purchase consideration for the above Acquisitions was RM31,599,999.90 satisfied by the issuance of 631,999,998 new shares at its indicative value of RM0.05 per share.

**11. ACCOUNTANTS' REPORT (Cont'd)****1. GENERAL INFORMATION (CONT'D)****1.5 The Acquisitions (cont'd)**

Following the completion of the Acquisition, the Group adopted the current structure as follows:-



Note: All the companies are incorporated in Malaysia.

The Group is regarded as a continuing entity resulting from the Acquisition since the management of all the entities which took major part in the Acquisition were controlled substantially same major shareholders before and immediately after the Acquisition. Consequently, immediately after the Acquisition, there was a continuation of the control over the entities' financial and operating policy decisions and risks and benefits to the ultimate shareholders that existed prior to the Acquisition. The Acquisition has been accounted for as an Acquisition under common control in a manner similar to pooling of interests. Accordingly, the Financial Information for the financial years ended 31 December 2015, 2016, 2017, 2018 have been prepared on the basis of merger accounting and comprise the financial statements of the subsidiaries which were under common control of the ultimate shareholders that existed prior to the Acquisition during the relevant periods or since their respective dates of incorporation. No financial information of Mestron Holdings Berhad was included for the financial years ended 31 December 2015, 2016 and 2017 as Mestron Holdings Berhad was only incorporated on 18 May 2018.

**2. RELEVANT FINANCIAL YEARS/PERIOD**

The relevant financial years/period of the audited financial statements presented for the purpose of this report ("Relevant Financial Years/Period") and the statutory auditors of the respective companies within the Group are as follows:-

<b>Company</b>	<b>Relevant Financial Years/Period</b>	<b>Auditor</b>
Mestron Holdings Berhad	Financial period from 18 May 2018 (Date of incorporation) to 31 December 2018	Grant Thornton Malaysia

**11. ACCOUNTANTS' REPORT (Cont'd)****2. RELEVANT FINANCIAL YEARS/PERIOD (CONT'D)**

The relevant financial years of the audited financial statements presented for the purpose of this report ("Relevant Financial Years/Period") and the statutory auditors of the respective companies within the Group are as follows (cont'd):-

<b>Company</b>	<b>Relevant Financial Years/Period</b>	<b>Auditor</b>
Mestron Engineering Sdn. Bhd.	FYE 31 December 2015 FYE 31 December 2016 FYE 31 December 2017 FYE 31 December 2018	KCSM KCSM Grant Thornton Malaysia Grant Thornton Malaysia
Max Lighting Solution Sdn. Bhd.	Financial period from 26 February 2016 (Date of incorporation) to 31 December 2016 FYE 31 December 2017 FYE 31 December 2018	KCSM Grant Thornton Malaysia Grant Thornton Malaysia
Meslite Sdn. Bhd.	FYE 30 June 2015 FYE 30 June 2016 FYE 30 June 2017 Financial period from 1 July 2017 to 31 December 2017 FYE 31 December 2018	Selva & Associates Selva & Associates Selva & Associates Grant Thornton Malaysia Grant Thornton Malaysia

The audited financial statements of all the companies within the Group for the Relevant Financial Years/Period reported above were not subject to any qualification or modification.

**3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS****3.1 Statement of compliance**

The Combined Financial Statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS") based on the Guidance Note on 'Combined Financial Statements' issued by the Malaysian Institute of Accountants in relation to the Listing.

The Combined Financial Statements consists of the financial statements of combining entities as disclosed in Note 1.5 to this report, which were under common control throughout the reporting years by virtue of common controlling shareholders.

The Combined Financial Statements have been prepared using financial information obtained from the records of the combining entities during the reporting years.

The financial information as presented in the Combined Financial Statements do not correspond to the consolidated financial statements of the Company, as the Combined Financial Statements reflect business combinations under common control for the purpose of the Listing. Consequently, the financial information from the Combined Financial Statements do not purport to predict the financial positions, results of operations and cash flows of the combining entities during the reporting years.

The combining entities adopted MFRS and IFRS during the financial years 31 December 2015, 2016, 2017 and 2018.

Consequently, comparative information for the financial year ended 31 December 2015, and opening MFRS statement of financial position as at 1 January 2015 have been restated accordingly in the financial statements of each of the combining entities.



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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****3.2 Basis of measurement**

The Combined Financial Statements of the Group are prepared under historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and its measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured on the assumptions that market participants would act in their economic best interest when pricing the asset or liability.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:-

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

**3.3 Functional and presentation currency**

The Combined Financial Statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency and all values are rounded to the nearest RM except when otherwise stated.

**11. ACCOUNTANTS' REPORT (Cont'd)****3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****3.4 Adoption of Amendments/Improvements to MFRSs**

The Group has consistently applied the accounting policies set out in Note 4 to the financial statements to all periods presented in these financial statements.

At the beginning of current financial year, the Group adopted new standards/amendments/improvements to MFRSs which are mandatory for the financial periods beginning on or after 1 January 2018.

Initial application of the amendments/improvements to the standards did not have material impact to the financial statements, except for:-

**MFRS 9 Financial Instrument**

The adoption of this Standard resulted in changes in accounting policies and adjustments to the financial statements.

The accounting policies that relate to the recognition, classification, measurement and derecognition of financial instruments and impairment of financial assets are amended to comply with the provisions of this Standard, while the hedge accounting requirements under this Standard are not relevant to the Group. In accordance with the transition requirements under paragraph 7.2.15 of this Standard, comparatives are not restated and the financial impact on the adoption of this Standard is recognised in retained earnings as at 1 January 2018.

**i. Changes in accounting policies*****Financial assets***

The Group classifies their financial assets into the following measurement categories depending on the Group's business model for managing the financial assets and the terms of contractual cash flows of the financial assets:-

- i. Those to be measured at amortised cost ("AC"); and
- ii. Those to be measured subsequently at fair value either through other comprehensive income or through profit or loss.

The following summarises the key changes:-

- i. The Available-For-Sale ("AFS"), Held-To-Maturity ("HTM") and loans and receivables ("L&R") financial asset categories were removed.
- ii. A new financial asset category measured at amortised cost was introduced. This applies to financial assets with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by collecting contractual cash flows only.
- iii. A new financial asset category measured at Fair Value Through Other Comprehensive Income ("FVTOCI") was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- iv. A new financial asset category for non-traded equity investments measured at FVTOCI was introduced.

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

**3.4 Adoption of Amendments/Improvements to MFRSs (cont'd)**

**MFRS 9 Financial Instrument (cont'd)**

**i. Changes in accounting policies (cont'd)**

***Financial liabilities***

There is no impact on the classification and measurement of the Group's financial liabilities.

***Impairment of financial assets***

MFRS 9 *Financial Instruments* requires impairment assessments to be based on an Expected Credit Loss ("ECL") model, replacing the incurred loss model under MFRS 139 *Financial Instruments: Recognition and Measurement*.

The key changes in relation to impairment of financial assets are as follows:-

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive.

The Group applies a two-step approach to measure the ECL:-

**(i) 12-months ECL**

For a financial asset for which there is no significant increase in credit risk since initial recognition, the Group shall measure the allowance for impairment for that financial asset at an amount based on the probability of default occurring within the next 12 months considering the loss given default of that financial asset.

**(ii) Lifetime ECL**

For a financial asset for which there is a significant increase in credit risk since initial recognition, a lifetime ECL for that financial asset is recognised as allowance for impairment by the Group. If, in a subsequent period the significant increase in credit risk since initial recognition is no longer evident, the Group shall revert the loss allowance measurement from lifetime ECL to 12-months ECL.

**Cash and bank balances**

At each financial year end, the Group assesses whether there is a significant increase in credit risk for cash and bank balances since initial recognition by comparing the risk of default on this financial asset as at the financial year end with the risk of default as at the date of initial recognition. The Group considers external credit rating and other supportive information to assess deterioration in credit quality of this financial asset.

**11. ACCOUNTANTS' REPORT (Cont'd)****3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****3.4 Adoption of Amendments/Improvements to MFRSs (cont'd)****MFRS 9 Financial Instrument (cont'd)****i. Changes in accounting policies (cont'd)****Trade and other receivables which are financial assets**

The Group applies the simplified approach prescribed by MFRS 9 *Financial Instruments*, which requires a lifetime ECL to be recognised from initial recognition of the trade and other receivables which are financial assets.

**ii. Classification and measurement**

Trade receivables, other receivables which are financial assets, cash and bank balances that have previously been classified as loans and receivables are now classified at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Classification of the Group's financial liabilities remained unchanged. Financial liabilities consisting of trade payables, other payables, amount due to Directors, finance lease liabilities and borrowings which are financial liabilities, continue to be measured at amortised cost.

There is no impact on the measurement of the Group's statement of financial position from MFRS 139 *Financial Instruments: Recognition and Measurement* to MFRS 9 *Financial Instruments* as at 1 January 2018.

**MFRS 15 Revenue from Contracts with Customers**

MFRS 15 supersedes MFRS 111 *Construction Contracts*, MFRS 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted MFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying MFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under MFRS 111, MFRS 118 and related Interpretations. The Group expects no impact on its statement of financial position.

**11. ACCOUNTANTS' REPORT (Cont'd)****3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****3.5 Standards issued but not yet effective**

At the date of authorisation of these Combined Financial Statements, certain new standards, amendments and interpretations to existing standards have been published by the MASB but are not yet effective, and have not been early adopted by the Group.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new standards, amendments and interpretations that are expected to have impact on the Group's Combined Financial Statements are provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's Combined Financial Statements.

The initial application of the above standards, amendments and interpretation are not expected to have any financial impacts to the Combined Financial Statements, except for:-

**MFRS 16 Leases – effective 1 January 2019**

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognised assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Group is required to account for major part of their operating leases in the combined statements of financial position by recognising the 'right-of-use' assets and the lease liability, thus increasing the assets and liabilities of the Group.

The Group is currently assessing the financial impact of adopting MFRS 16.

**3.6 Significant accounting estimates and judgements**

Estimates, assumptions concerning the future and judgements are made in the preparation of the Combined Financial Statements. They affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from judgements, estimates and assumptions made by the management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below:-

**3.6.1 Estimation uncertainty****Inventories**

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The realisation of these inventories may be affected by market-driven changes that may occur in the future.

The carrying amount of the Group's inventories at the end of the reporting period are disclosed in Note 7 to the Combined Financial Statements.

**11. ACCOUNTANTS' REPORT (Cont'd)****3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****3.6 Significant accounting estimates and judgements (cont'd)****3.6.1 Estimation uncertainty (cont'd)**Useful lives of depreciable assets

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives. Management estimates the useful lives of the property, plant and equipment to be within 5 to 96 years and reviews the useful lives of depreciable assets at end each of each reporting period. At 31 December 2018, management assesses that the useful lives represent the expected utility of the assets to the Group. Actual results, however, may vary due to change in the expected level of usage and technological developments, which may result in the adjustment to the Group's assets.

The carrying amount of the Group's property, plant and equipment at the end of the reporting period is disclosed in Note 5 to the Combined Financial Statements.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on common credit risk characteristic which are days past due.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., mortality rate) are expected to increase over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 29.2(a).

Income taxes and deferred tax liabilities

Estimation is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the year in which such determination is made.

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)****3.6 Significant accounting estimates and judgements (cont'd)****3.6.2 Significant management judgement**

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the Combined Financial Statements.

**Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. The Group accounts for the portions separately if the portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

**Leases**

In applying the classification of leases in MFRS 117, management considers some of its leases of leasehold land as finance lease arrangements. The lease transaction is not always conclusive, and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership, whether the lease term is for the major part of the economic life of the asset even if title is not transferred and others in accordance with MFRS 117 Leases.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently by the Group to the periods presented in these Combined Financial Statements, unless otherwise stated.

**4.1 Consolidation****4.1.1 Subsidiary companies**

Subsidiaries are entities, including structured entities, controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investment in subsidiary companies is stated at cost less any impairment losses in the Company's statements of financial position, unless the investment is held for sale or distribution.

Upon the disposal of investment in a subsidiary, the difference between the net disposal proceed and its carrying amount is included in profit or loss.

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**4.1 Consolidation (cont'd)**

**4.1.2 Basis of consolidation**

Potential voting rights are considered when assessing control only when such rights are substantive. Besides, the Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

The Group's Financial Information consolidate the audited financial statements of the Company and all of its subsidiary companies, which have been prepared in accordance with the Group's accounting policies. Amounts reported in the financial statements of the subsidiary companies have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. The Combined Financial Statements of the Company and its subsidiary companies are all drawn up to the same reporting date.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Under the merger method of accounting, the results of the subsidiary companies are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholders at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit differences is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any other reserves which are attributable to share capital of the merged entities, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

**4.1.3 Loss of control**

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.



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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.1 Consolidation (cont'd)****4.1.4 Non-controlling interest**

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

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if that results in a deficit balance.

**4.2 Foreign currency translation and balances**

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss with the exception of all monetary items that forms part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising in translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference (translation differences on items whose gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss respectively).

**4.3 Property, plant and equipment**

All property, plant and equipment are measured at cost less accumulated depreciation and less any impairment losses. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.3 Property, plant and equipment (cont'd)**

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is recognised on the straight line method in order to write off the cost of each asset over its estimated useful life.

Freehold land with an infinite life is not depreciated. Other property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:-

Freehold and leasehold building	2%
Leasehold land	67 to 96 years
Office equipment	10% to 20%
Computer and software	10% to 33.33%
Office renovation	10% to 20%
Tools and machinery	14% to 20%
Furniture and fittings	10%
Motor vehicles	20%

Capital work-in-progress consists of buildings and plant and machinery under construction/installation for intended use as production facilities. The amount is stated at cost and includes capitalisation of interest incurred on borrowings related to property, plant and equipment under construction/installation until the property, plant and equipment are ready for their intended use. Assets under construction are not depreciated until it is completed and ready for their intended use.

The residual values, useful lives and depreciation method are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least annually to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss in the financial year in which the asset is derecognised.

**4.4 Investment Properties**

Investment properties consist of land and buildings held for capital appreciation or rental purpose and not occupied or only an insignificant portion is occupied for use or in the operations of the Group.

Investment properties are treated as long term investments and are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognised on the straight line method in order to write off the cost of each investment property over its estimated useful life. Freehold land is not amortised.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.4 Investment Properties (cont'd)**

The principal annual depreciation rates used are as follows:-

Freehold building	2%
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Investment properties are derecognised when either they are disposed off or when they are permanently withdrawn from use and no future economic benefit is expected from the disposal.

Any gain or loss on the retirement or disposal of an investment property is recognised in the profit or loss in the financial year of retirement or disposal.

Investment properties are written down to recoverable amount if, there is objective evidence that, it is less than their carrying value. Recoverable amount is the net selling price of the properties i.e. the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

**4.5 Asset held for sale**

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Classification of the asset as held for sale occurs only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary and the sale must be highly probable. Management must be committed to a plan to sell the assets which are expected to qualify for recognition as a completed sale within one year from the date of classification. Action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment once classified as held for sale are not amortised or depreciated.

**4.6 Inventories**

Inventories comprise raw material, work-in-progress and finished goods.

Inventories are valued at the lower of cost and net realisable value. Cost is determined based on the weighted average basis.

Cost of inventories comprises aggregate cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to be incurred in marketing, selling and distribution.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.7 Financial Instruments****4.7.1 Initial Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**4.7.2 Classification and initial measurement of financial assets**Accounting policies applied from 1 January 2018

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with MFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs.

Financial assets other than those designated and effective as hedging instruments, are classified into the following categories:-

- (a) amortised cost;
- (b) fair value through profit or loss ("FVTPL"); and
- (c) fair value through other comprehensive income ("FVOCI").

In the periods presented the corporation does not have any financial assets categorised as FVTPL and FVOCI.

The classification is determined by both:-

- (a) the entity's business model for managing financial asset; and
- (b) the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

**4.7.3 Subsequent measurement of financial assets**Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):-

- (a) they are held within a business model whose business objective is to hold the financial assets and collect its contractual cash flows; and
- (b) the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.7 Financial Instruments (cont'd)****4.7.3 Subsequent measurement of financial assets**Accounting policies applied until 31 December 2017

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition: -

- (a) Financial assets at fair value through profit or loss;
- (b) Held-to-maturity investments;
- (c) Loans and receivables; and
- (d) Available-for-sale financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each end of the reporting period. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets.

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 (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

At the reporting date, the Group carries only loans and receivables on its statements of financial position.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the end of the reporting period which are classified as non-current.

**4.7.4 Impairment of financial assets**Accounting policies applied from 1 January 2018

MFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss model'. This replaces MFRS 9's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under MFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.7 Financial Instruments (cont'd)****4.7.4 Impairment of financial assets (cont'd)**Accounting policies applied from 1 January 2018 (cont'd)

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:-

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, they have been grouped based on the days past due.

Accounting policies applied until 31 December 2017

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable date indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.7 Financial Instruments (cont'd)****4.7.4 Impairment of financial assets (cont'd)**Accounting policies applied until 31 December 2017 (cont'd)

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

**4.7.5 Classification and measurement of financial liabilities**

As the accounting for financial liabilities remains largely the same under MFRS 9 compared to MFRS 39, the Group's financial liabilities was not impacted by the adoption of MFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include trade and other payables, amount due to Directors, borrowing and finance lease liabilities.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.7 Financial Instruments (cont'd)****4.7.6 Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the combined statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**4.7.7 Impairment of non-financial assets**

At each reporting date, the Group reviews carrying amounts of its non-financial assets to determine whether there is any indication of impairment. Non-financial assets is tested for impairment at least once annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount is estimated and an impairment loss is recognised whenever the recoverable amount of the asset or a cash-generating unit is less than its carrying amount. Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

In assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. An impairment loss is recognised as an expense in profit or loss immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of previously recognised revaluation surplus for the same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses for an asset may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

All reversals of impairment losses are recognised as income immediately in profit or loss unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through profit or loss is treated as revaluation increase. After such a reversal, depreciation charge is adjusted in future periods to allocate the revised carrying amount of the asset, less any residual value, on a systematic basis over its remaining useful life

**4.8 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and bank balances which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the reporting date are classified as non-current assets.



**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.9 Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transactions cost. Ordinary shares are classified as equity.

Retained earnings include all current and prior years retained earnings.

Dividends on ordinary shares are accounted for in shareholders' equity as an appropriation of retained earnings.

All transactions with owners of the parent are recorded separately within equity.

**4.10 Provisions**

Provisions are recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provision is discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**4.11 Lease**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or asset or the arrangement conveys a right to use the asset, even if that right is not explicitly specific in an arrangement.

**4.11.1 Finance lease**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Minimum lease payments made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.11 Lease (cont'd)****4.11.2 Operating lease**

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

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

**4.12 Revenue recognition**

The Group is in the business of manufacturing and trading in steel and lighting products. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

**Sale of goods**

Revenue relating to sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Transaction price of the sales of goods will be net of sales returns and discount.

**Interest income**

Interest income is recognised in profit or loss as it accrues taking into account the effective yield on the asset.

**Rental income**

Rental income is accounted for on a straight-line basis over the lease terms.

**4.13 Borrowing cost**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the assets during the period of time that is necessary to complete and prepare the asset for its intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

**4.14 Tax expense**

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

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.14 Tax expense (cont'd)****4.14.1 Current tax**

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

Current tax is recognised in the combined statements of financial position as a liability (or an asset) to the extent that it is unpaid (or refundable).

**4.14.2 Deferred tax**

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

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

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

**4.15 Goods and service tax**

Goods and Services Tax ("GST") is a consumption tax based on value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate. Input GST that the Group paid on purchases of business inputs can be deducted from output GST.

Revenues, expenses and assets are recognised net of the amount of GST except:-

- Where the GST incurred in a purchase of assets or services is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of GST included.

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.15 Goods and service tax (cont'd)**

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the combined statements of financial position.

The Malaysian Government has zero rated the GST effective from 1 June 2018. This mean the GST rate on the supplies of goods or services or on the importation of goods has been revised from 6% to 0%.

The GST will be replaced with the Sales and Services Tax effective from 1 September 2018. The rate for sales tax is fixed at 5% or 10%, while the rate for services tax is fixed at 6%.

**4.16 Sales and service tax**

Expenses and assets are recognised net of the amount of sales and service tax, except:-

- When the sales and service tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales and service tax is recognised as part of the cost of acquisition of the asset or as part of the expenses item, as applicable
- When receivables and payables are stated with the amount of sales and service tax included.

The net amount of sales and service tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**4.17 Employee benefits****4.17.1 Short-term employee benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**4.17.2 Defined contribution plan**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

**4.18 Contingencies**

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

**11. ACCOUNTANTS' REPORT (Cont'd)****4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.19 Related parties**

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

- (i) A person or a close member of that person's family is related to the Group if that person:-
  - (a) has control or joint control over the Group;
  - (b) has significant influence over the Group; or
  - (c) is a member of the key management personnel of the holding Group of the Group, or the Group.
  
- (ii) An entity is related to the Group if any of the following conditions applies:-
  - (a) the entity and the Group are members of the same group.
  - (b) one entity is an associate or joint venture of the other entity.
  - (c) both entities are joint ventures of the same third party.
  - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (e) the entity is a post-employment benefit plan for the benefits of employees of either the to the Group or an entity related to the Group.
  - (f) the entity is controlled or jointly-controlled by a person identified in (i) above.
  - (g) a person identified in (i)(a) above has significant influence over the entity or is a member of the key management personnel of the (or of the parent of the entity); or
  - (h) the entity, or any member of a group of which it is a party, provides key management personnel services to the Group or to the parent of the Group.

**4.20 Segmental results****4.20.1 Operating segment**

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

**4.20.2 Intersegment transfer**

Segment revenues, expenses and result include transfers between segments. The prices charges on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity in negotiated term. These transfers are eliminated on consolidation.

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**4.21 Earnings per share**

**(i) Basic**

Basic earnings per share for the year is calculated by dividing the net profit for the year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue.

**(ii) Diluted**

Diluted earnings per share is calculated by dividing the net profit for the year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

**11. ACCOUNTANTS' REPORT (Cont'd)****5. PROPERTY, PLANT AND EQUIPMENT**

Cost	Freehold land and building RM	Leasehold land and building RM	Office equipment RM	Computer and software RM	Office renovation RM	Tools and machinery RM	Furniture and fittings RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
At 1 January 2015	1,664,364	4,141,407	60,524	99,328	33,452	2,204,904	52,780	2,024,275	5,200,826	15,481,860
Additions	-	-	3,010	4,419	-	537,350	115,070	1,499,774	5,884,477	8,044,100
Disposals	-	(3,120,516)	-	-	-	-	-	(705,358)	-	(3,825,874)
At 31 December 2015	1,664,364	1,020,891	63,534	103,747	33,452	2,742,254	167,850	2,818,691	11,085,303	19,700,086
Additions	-	-	32,627	66,895	-	1,352,830	45,509	441,270	2,426,047	4,365,178
Reclassification	-	9,569,733	-	-	-	-	-	-	(9,569,733)	-
At 31 December 2016	1,664,364	10,590,624	96,161	170,642	33,452	4,095,084	213,359	3,259,961	3,941,617	24,065,264
Additions	2,830,000	6,850,000	31,517	20,342	18,795	188,000	11,832	363,645	1,334,421	11,648,552
Disposals	-	-	-	-	-	-	-	(84,934)	-	(84,934)
Reclassification	-	4,467,166	-	-	-	-	-	-	(4,467,166)	-
At 31 December 2017	4,494,364	21,907,790	127,678	190,984	52,247	4,283,084	225,191	3,538,672	808,872	35,628,882
Additions	-	58,904	20,606	54,271	432,385	862,085	4,339	857,447	213,683	2,503,720
Disposals	-	(1,588,131)	-	-	-	-	-	(429,399)	-	(2,017,530)
Transfer to asset held-for-sales	-	(4,467,166)	-	-	-	-	-	-	-	(4,467,166)
Transfer to investment properties	(1,664,364)	-	-	-	-	-	-	-	-	(1,664,364)
At 31 December 2018	2,830,000	15,911,397	148,284	245,255	484,632	5,145,169	229,530	3,966,720	1,022,555	29,983,542

**11. ACCOUNTANTS' REPORT (Cont'd)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land and building RM	Leasehold land and building RM	Office equipment RM	Computer and software RM	Office renovation RM	Tools and machinery RM	Furniture and fittings RM	Motor vehicles RM	Capital work-in- progress RM	Total RM
<b>Accumulated depreciation</b>										
At 1 January 2015	207,708	82,759	47,839	82,369	24,854	1,855,081	37,974	1,250,213	-	3,588,797
Charge during the financial year	24,199	14,815	4,947	9,625	2,094	183,877	15,985	500,943	-	756,485
Disposal	-	(53,129)	-	-	-	-	-	(564,286)	-	(617,415)
At 31 December 2015	231,907	44,445	52,786	91,994	26,948	2,038,958	53,959	1,186,870	-	3,727,867
Charge during the financial year	24,199	172,549	9,272	29,636	2,094	330,024	19,992	574,343	-	1,162,109
At 31 December 2016	256,106	216,994	62,058	121,630	29,042	2,368,982	73,951	1,761,213	-	4,889,976
Charge during the financial year	79,789	338,371	15,068	30,303	3,976	324,455	20,609	591,477	-	1,404,048
Disposals	-	-	-	-	-	-	-	(84,933)	-	(84,933)
At 31 December 2017	335,895	555,365	77,126	151,933	33,018	2,693,437	94,560	2,267,757	-	6,209,091
Charge during the financial year	39,851	333,868	14,536	39,924	15,481	374,793	19,958	631,151	-	1,469,562
Disposals	-	(117,685)	-	-	-	-	-	(331,954)	-	(449,639)
Transfer to asset held-for-sales	-	(90,246)	-	-	-	-	-	-	-	(90,246)
Transfer to investment properties	(290,846)	-	-	-	-	-	-	-	-	(290,846)
At 31 December 2018	84,900	681,302	91,662	191,857	48,499	3,068,230	114,518	2,566,954	-	6,847,922
<b>Net carrying amount</b>										
At 31 December 2018	2,745,100	15,230,095	56,622	53,398	436,133	2,076,939	115,012	1,399,766	1,022,555	23,135,620
At 31 December 2017	4,158,469	21,352,425	50,552	39,051	19,229	1,589,647	130,631	1,270,915	808,872	29,419,791
At 31 December 2016	1,408,258	10,373,630	34,103	49,012	4,410	1,726,102	139,408	1,498,748	3,941,617	19,175,288
At 31 December 2015	1,432,457	976,446	10,748	11,753	6,504	703,296	113,891	1,631,821	11,085,303	15,972,219

The Directors are of the opinion that unreasonable expenses would be incurred in segregating the costs of the freehold and leasehold land and building separately.



**11. ACCOUNTANTS' REPORT (Cont'd)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

- (a) The following property, plant and equipment have been pledged to licensed banks as security for banking facilities granted to the Group:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Freehold land and building	1,432,457	1,408,258	4,158,469	2,745,100
Leasehold land and building	-	8,864,148	19,863,379	15,230,095
	<u>1,432,457</u>	<u>10,272,406</u>	<u>24,021,848</u>	<u>17,975,195</u>

- (b) The following property, plant and equipment are asset held under finance lease:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Motor vehicles	1,222,866	1,258,347	1,110,675	1,078,044
Machineries	-	1,163,434	1,133,998	918,562
	<u>1,222,866</u>	<u>2,421,781</u>	<u>2,244,673</u>	<u>1,996,606</u>

**6. INVESTMENT PROPERTIES**

	<u>2018</u> RM
<b>Cost</b>	
At 1 January 2018	-
Transfer from property, plant and equipment	<u>1,664,364</u>
At 31 December 2018	<u>1,664,364</u>
<b>Accumulated depreciation</b>	
At 1 January 2018	-
Transfer from property, plant and equipment	290,846
Amortisation during the financial year	<u>18,308</u>
At 31 December 2018	<u>309,154</u>
Net carrying amount	
At 31 December 2018	<u>1,355,210</u>
Market value based on similar properties at proximity area	<u>1,638,370</u>

The market value at the reporting date was obtained from the Directors determined by reference to similar industrial lands and buildings which have been sold or are being offered sale. No independent valuation by professional valuer has been performed on these investment properties.

**11. ACCOUNTANTS' REPORT (Cont'd)****6. INVESTMENT PROPERTIES (CONT'D)**

(a) The following are recognised in profit or loss in respect of investment properties:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Direct operating expenses	-	-	-	2,104
Rental income	-	-	-	66,000

(b) The factory buildings of the Group with net carrying value of RM1,355,210 are pledged to licensed bank for banking facilities granted.

**7. INVENTORIES**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Finished goods	25,922	149,667	1,347,902	1,664,809
Raw materials	1,088,373	1,334,864	7,220,548	6,021,377
Work-in-progress	866,204	1,111,466	466,536	2,020,435
	<u>1,980,499</u>	<u>2,595,997</u>	<u>9,034,986</u>	<u>9,706,621</u>
<b>Recognised in profit or loss</b>				
Recognised as cost of sales	31,587,170	29,264,232	39,615,670	41,016,839
Allowance for obsolete inventories	-	-	244,741	-
Reversal of allowance for obsolete inventories	-	-	-	(244,741)

**8. TRADE RECEIVABLES**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Trade receivables	11,535,621	16,909,904	18,657,790	22,620,418
Less: Impairment losses	<u>(44,276)</u>	<u>-</u>	<u>(384,535)</u>	<u>(75,174)</u>
	<u>11,491,345</u>	<u>16,909,904</u>	<u>18,273,255</u>	<u>22,545,244</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****8. TRADE RECEIVABLES (CONT'D)**

The movement of impairment losses is as follows:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Brought forward	100,537	44,276	-	384,535
Provision for expected credit losses	-	-	384,535	75,174
Written off	-	-	-	(127,977)
Reversal during the financial year	<u>(56,261)</u>	<u>(44,276)</u>	<u>-</u>	<u>(256,558)</u>
Carried forward	<u>44,276</u>	<u>-</u>	<u>384,535</u>	<u>75,174</u>

Trade receivables are non-interest bearing and generally on 30 to 90 (2017: 30 to 90; 2016: 30 to 90; 2015: 30 to 90) days term.

The allowance for doubtful debts on trade receivables was reversed during the financial year as a result of subsequent receipts.

**9. OTHER RECEIVABLES**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Other receivables	531,839	2,388,312	856,904	1,933,468
Deposits	430,550	1,339,484	823,453	752,215
Prepayments	2,971	2,417	117,943	203,543
GST receivable	<u>17</u>	<u>192,399</u>	<u>138,366</u>	<u>177,406</u>
	965,377	3,922,612	1,936,666	3,066,632
Less: Impairment losses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,400)</u>
	<u>965,377</u>	<u>3,922,612</u>	<u>1,936,666</u>	<u>3,016,232</u>

Included in the other receivable is an amount due from Directors amounted to RMNil (2017: RM282,834; 2016: RM280,030; 2015: RM55,160) are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

The movement of impairment losses is as follows:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Brought forward	-	-	-	-
Provision for expected credit losses	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,400</u>
Carried forward	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,400</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****10. ASSET HELD-FOR-SALE**

During the financial year, the Group has signed a sales and purchase agreement to sell its industrial land Lot 14003, Mukim Dengkil, Daerah Sepang, Negeri Selangor. This criteria in MFRS 5 would be met at the plan commitment date.

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Asset classified as held-for-sale:-</b>				
Property, plant and equipment	-	-	-	4,376,920

**11. SHARE CAPITAL**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Issued and fully paid:-</b>				
At 1 January	1,100,000	2,600,000	3,200,000	3,200,000
Issuance of ordinary shares	1,500,000	600,000	-	2
At 31 December	2,600,000	3,200,000	3,200,000	3,200,002

The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Group's residual assets.

**12. BORROWINGS**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Non-current</b>				
Term loans	4,086,963	9,175,240	15,374,019	14,933,783
<b>Current</b>				
Term loans	435,984	361,062	498,394	487,601
Bankers acceptance	-	749,000	1,154,000	652,000
	435,984	1,110,062	1,652,394	1,139,601
<b>Total borrowings</b>	4,522,947	10,285,302	17,026,413	16,073,384

**11. ACCOUNTANTS' REPORT (Cont'd)****12. BORROWINGS (CONT'D)**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Secured:</b>				
Term loan 1	982,811	917,265	857,046	803,421
Term loan 2	540,086	500,154	458,200	436,718
Term loan 3	452,907	425,432	396,143	381,009
Term loan 4	1,670,092	1,829,341	1,737,784	1,667,508
Term loan 5	300,010	3,414,587	3,975,441	3,924,324
Term loan 6	-	-	463,307	429,648
Term loan 7	-	-	4,767,547	4,700,879
Term loan 8	577,041	565,162	552,539	538,122
Term loan 9	-	1,700,806	2,509,423	2,430,214
Term loan 10	-	183,555	154,983	109,541
	<u>4,522,947</u>	<u>9,536,302</u>	<u>15,872,413</u>	<u>15,421,384</u>
	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
The term loans are repayable as follows:-				
- within 1 year	435,984	361,062	498,394	487,601
- within 1 to 2 years	158,458	370,793	544,080	564,944
- more than 2 years	3,928,505	8,804,447	14,829,939	14,368,839
Non-current portion	<u>4,086,963</u>	<u>9,175,240</u>	<u>15,374,019</u>	<u>14,933,783</u>
	<u>4,522,947</u>	<u>9,536,302</u>	<u>15,872,413</u>	<u>15,421,384</u>

The term loans 1 to 9 bear interest at rate of 2.0% - 2.2% (2017: 2.0% - 2.2%; 2016: 2.0% - 2.2%; 2015: 2.0% - 2.25%) below BLR and the term loan 10 bears interest at rate of 5% (2017: 5%; 2016: 5%; 2015: Nil) above BLR. The term loans 1 to 10 are secured against the following:-

- (i) Guarantee by Directors of the Group jointly and severally;
- (ii) Property, plant and equipment of the Group as disclosed in Note 5 to the financial statements;
- (iii) Investment property of the Group as disclosed in Note 6 to the financial statements;
- (iv) Corporate guarantee by the Company.

Term loan 1 is repayable over 240 monthly installments of RM7,146 each commencing after one month from the date of full disbursement.

Term loan 2 is repayable over 300 monthly installments of RM3,520 each commencing after one month from the date of full disbursement.

Term loan 3 is repayable over 240 monthly installments of RM4,059 each commencing after one month from the date of full disbursement.

Term loan 4 is repayable over 240 monthly installments of RM12,761 each commencing after one month from the date of full disbursement.

Term loan 5 is repayable over 240 monthly installments of RM25,247 each commencing after one month from the date of full disbursement.

**11. ACCOUNTANTS' REPORT (Cont'd)****12. BORROWINGS (CONT'D)**

Term loan 6 is repayable over 180 monthly installments of RM3,856 each commencing after one month from the date of full disbursement.

Term loan 7 is repayable over 240 monthly installments of RM30,679 each commencing after one month from the date of full disbursement.

Term loan 8 is repayable over 300 monthly installments of RM3,313 each commencing after one month from the date of full disbursement.

Term loan 9 is repayable over 240 monthly installments of RM16,360 each commencing after one month from the date of full disbursement.

Term loan 10 is repayable over 60 monthly installments of RM4,434 each commencing after one month from the date of full disbursement.

The bankers acceptance bears interest at rate of 1.25% (2017: 1.25%; 2016: 1.25%; 2015: Nil) above BLR and are secured against the following:-

- (i) Guaranteed by Directors of the Group jointly and severally;
- (ii) Property, plant and equipment of the Group as disclosed in Note 5 to the financial statements.

**13. FINANCE LEASE LIABILITIES**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Minimum lease payment:-				
- within 1 year	356,100	751,694	720,883	865,942
- within 1 to 2 years	338,186	541,878	635,651	626,594
- between 2 to 5 years	269,225	780,887	521,244	152,978
	<u>963,511</u>	<u>2,074,459</u>	<u>1,877,778</u>	<u>1,645,514</u>
Less: Future finance charge	<u>(73,568)</u>	<u>(189,104)</u>	<u>(154,299)</u>	<u>(96,016)</u>
	<u>889,943</u>	<u>1,885,355</u>	<u>1,723,479</u>	<u>1,549,498</u>
Present value of finance lease liabilities				
- within 1 year	320,948	662,998	634,715	797,025
- within 1 to 2 years	318,567	482,835	586,938	602,312
- between 2 to 5 years	250,428	739,522	501,826	150,161
Non-current portion	<u>568,995</u>	<u>1,222,357</u>	<u>1,088,764</u>	<u>752,473</u>
	<u>889,943</u>	<u>1,885,355</u>	<u>1,723,479</u>	<u>1,549,498</u>

The effective interest rates are ranging from 2.08% to 3.60% (2017: 2.42% to 3.40%; 2016: 2.42% to 3.40%; 2015: 2.42% to 3.62%) per annum.

**11. ACCOUNTANTS' REPORT (Cont'd)****14. DEFERRED TAX LIABILITIES**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
At 1 January	138,259	160,000	469,000	291,000
Recognised in profit or loss (Note 22)	<u>21,741</u>	<u>309,000</u>	<u>(178,000)</u>	<u>7,000</u>
At 31 December	<u>160,000</u>	<u>469,000</u>	<u>291,000</u>	<u>298,000</u>

The deferred tax liabilities are made up of temporary differences arising from:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Carrying amount of qualifying property, plant and equipment in excess of their tax base	160,000	469,000	313,000	298,000
Unabsorbed capital allowance	<u>-</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>
	<u>160,000</u>	<u>469,000</u>	<u>291,000</u>	<u>298,000</u>

**15. TRADE PAYABLES**

Trade payables are non-interest bearing and generally on 30 to 120 (2017: 30 to 120; 2016: 30 to 120; 2015: 30 to 120) days term.

**16. OTHER PAYABLES AND ACCRUALS**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Other payables	2,542,989	158,033	155,363	789,045
Accruals	88,419	111,315	813,851	1,148,089
Deposits	-	-	2,670	9,000
GST payables	<u>9,980</u>	<u>-</u>	<u>36,279</u>	<u>-</u>
	<u>2,641,388</u>	<u>269,348</u>	<u>1,008,163</u>	<u>1,946,134</u>

**17. AMOUNT DUE TO DIRECTORS**

Amount due to Directors is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

**11. ACCOUNTANTS' REPORT (Cont'd)****18. REVENUE**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Timing of revenue recognition</b>				
Goods transferred at a point of time	<u>40,540,598</u>	<u>44,373,958</u>	<u>60,747,287</u>	<u>63,680,038</u>

**19. OTHER OPERATING INCOME**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Reversal of allowance for obsolete inventories	-	-	-	244,741
Reversal of impairment loss on trade receivables	56,261	44,276	-	256,558
Bad debts recovered	22,000	7,171	-	-
Gain on disposal of property, plant and equipment	407,581	-	21,999	51,407
Realised foreign exchange gains	342,667	430,238	343,399	332
Rental income	-	-	-	66,000
Interest income	2,590	5,770	20,772	-
Miscellaneous income	2,151	4,829	10,600	8,750
	<u>833,250</u>	<u>492,284</u>	<u>396,770</u>	<u>627,788</u>

**20. FINANCE COST**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Interest expenses on:-</b>				
Bankers' acceptance	8,348	21,904	18,763	39,680
Finance leases	34,115	82,477	106,745	98,867
Term loans	204,610	289,303	776,808	933,778
	<u>247,073</u>	<u>393,684</u>	<u>902,316</u>	<u>1,072,325</u>



**11. ACCOUNTANTS' REPORT (Cont'd)****21. PROFIT BEFORE TAX**

Profit before tax has been determined after charging, amongst other items, the following items:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Audit fees	30,800	33,300	68,000	70,000
Bad debts written off	15,596	44,276	-	38,767
Depreciation of property, plant and equipment	756,485	1,162,109	1,404,048	1,469,562
Amortisation of investment properties	-	-	-	18,308
Rental of house	32,400	45,400	34,500	16,300
Rental of crane	8,580	17,900	6,400	69,455
Rental of factory	319,870	124,050	72,000	30,000
Rental of forklift	-	-	-	17,600
Rental of machinery and equipment	-	8,050	26,917	600
	<u>-</u>	<u>8,050</u>	<u>26,917</u>	<u>600</u>

**22. TAX EXPENSE**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Current tax expense:-				
- current year provision	561,245	1,222,096	3,138,356	2,885,386
- (over)/under provision in prior year	<u>(391,617)</u>	<u>349,508</u>	<u>1,763</u>	<u>3,572</u>
	169,628	1,571,604	3,140,119	2,888,958
Transfer to/(from) deferred taxation (Note 14)				
- current year provision	1,000	145,000	(154,000)	37,000
- under/(over) provision in prior year	<u>20,741</u>	<u>164,000</u>	<u>(24,000)</u>	<u>(30,000)</u>
	<u>21,741</u>	<u>309,000</u>	<u>(178,000)</u>	<u>7,000</u>
	<u>191,369</u>	<u>1,880,604</u>	<u>2,962,119</u>	<u>2,895,958</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****22. TAX EXPENSE (CONT'D)**

A reconciliation of income tax expenses applicable to profit before tax at the statutory tax rate to income tax expense at the effective tax rate of the Group are as follows:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Profit before tax	<u>2,367,589</u>	<u>7,160,864</u>	<u>11,499,875</u>	<u>12,202,496</u>
Tax at Malaysia statutory rate of 24%	591,897	1,718,607	2,759,970	2,928,600
Tax effect in respect of:-				
Non-allowable expenses	263,513	209,805	293,269	266,303
Income not subject to tax	(187,562)	(74,013)	(5,280)	(120,312)
Utilisation of reinvestment allowances	(80,603)	(462,303)	(33,603)	(122,205)
Change in tax rate for first RM500,000 of chargeable income	(25,000)	(25,000)	(30,000)	(30,000)
Under/(over) provision of deferred tax in prior year	20,741	164,000	(24,000)	(30,000)
Under provision of tax in prior year	<u>(391,617)</u>	<u>349,508</u>	<u>1,763</u>	<u>3,572</u>
Tax expense for the financial years	<u>191,369</u>	<u>1,880,604</u>	<u>2,962,119</u>	<u>2,895,958</u>

**23. EARNINGS PER SHARE**Basic earnings per ordinary share

The calculation of basic earnings per share was based on the profit attributable to ordinary equity holders of the Group and a weighted average number of ordinary shares issued calculated as follows:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Profit for the financial years attributable to owners of the Group (RM)	<u>2,176,220</u>	<u>5,280,260</u>	<u>8,537,756</u>	<u>9,306,538</u>
Weighted average number of ordinary shares in issue	<u>1,101,370</u>	<u>3,079,452</u>	<u>3,200,000</u>	<u>3,200,002</u>
Basic earnings per share (sen)	<u>1.98</u>	<u>1.71</u>	<u>2.67</u>	<u>2.91</u>

Diluted earnings per share

Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

**11. ACCOUNTANTS' REPORT (Cont'd)****24. EMPLOYEE BENEFITS EXPENSES**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Salaries and other emoluments	4,017,229	4,206,383	5,986,605	6,029,237
Defined contribution plan	258,742	305,609	393,054	520,684
Social security contributions	12,402	17,911	21,107	33,541
Other benefits	578,343	781,927	1,478,657	1,445,620
	<u>4,866,716</u>	<u>5,311,830</u>	<u>7,879,423</u>	<u>8,029,082</u>

Included in the employee benefit expenses are the Directors' remuneration as below:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Salaries and other emoluments	838,612	871,500	1,118,407	1,409,500
Defined contribution plan	151,873	154,555	185,795	242,305
Social security contributions	1,860	2,552	2,900	3,693
	<u>992,345</u>	<u>1,028,607</u>	<u>1,307,102</u>	<u>1,655,498</u>

**25. RELATED PARTY DISCLOSURES**

(a) The related party transactions of the Group during the financial years/period were as follows:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Transactions with Directors				
- Disposal of property, plant and equipment	300,000	-	-	-

(b) Outstanding balances arising from related party transactions are disclosed in Notes 9 and 17 to the financial statements.

(c) Compensation of key management personnel

Key management personnel is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and entity that provides key management personnel services to the Group.

Key management includes all the Directors of the Group and certain members of senior management of the Group.

**11. ACCOUNTANTS' REPORT (Cont'd)****25. RELATED PARTY DISCLOSURES (CONT'D)****(c) Compensation of key management personnel (cont'd)**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Directors	992,345	1,028,607	1,307,102	1,655,498
Other key management personnels	<u>106,412</u>	<u>230,365</u>	<u>349,933</u>	<u>562,366</u>

**26. DIVIDENDS**

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
In respect of financial year ended 31 December 2017:- Single-tier dividend of 20% on 2,500,000 ordinary shares declared on 30 November 2017 and paid on 28 September 2018	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>

**27. COMMITMENTS**Operating lease commitments

The future minimum lease payment under non-cancellable operating lease commitments are:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Not later than one year	72,000	74,600	66,000	31,100
Later than one year but not later than five years	<u>138,000</u>	<u>66,000</u>	<u>-</u>	<u>7,000</u>
	<u>210,000</u>	<u>140,600</u>	<u>66,000</u>	<u>38,100</u>

Operating lease commitments represent rental payables for rent of the Group's premises.

Capital commitments

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Authorised and contracted for:- Property, plant and equipment	<u>891,448</u>	<u>6,850,000</u>	<u>4,755,040</u>	<u>4,279,536</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****28. SEGMENTAL REPORTING – GROUP**

For management purposes, the Group is organised into business units based on its nature of business and has two reportable segments, as follows:-

- Manufacturing - Manufacturing of steel poles comprising standard street lighting poles, decorative light poles and specialty poles.  
 Trading - Trading of outdoor lighting products.

The Director monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the combined financial statements.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation. Transfer prices between business segments are established on terms and conditions that are mutually agreed upon.

**Business segments**

	Note	<u>Manufacturing</u> RM	<u>Trading</u> RM	<u>Elimination</u> RM	<u>Combined</u> RM
<b>2015</b>					
<b>Revenue:-</b>					
External customers		29,848,721	10,691,877	-	40,540,598
Inter-segment		1,412,772	-	(1,412,772)	-
<b>Results:-</b>					
Interest income		2,590	-	-	2,590
Interest expenses		(247,073)	-	-	(247,073)
Depreciation of property, plant and equipment		(756,485)	-	-	(756,485)
Tax expense		(122,089)	(69,280)	-	(191,369)
Other non-cash income	(i)	448,246	-	-	448,246
Segment profit		1,690,031	486,189	-	2,176,220
<b>Assets:-</b>					
Additions to non-current asset:-property, plant and equipment		8,044,100	-	-	8,044,100
<b>2016</b>					
<b>Revenue:-</b>					
External customers		32,074,592	12,299,366	-	44,373,958
Inter-segment		1,069,854	527,595	(1,597,449)	-

**11. ACCOUNTANTS' REPORT (Cont'd)****28. SEGMENTAL REPORTING – GROUP (CONT'D)****Business segments (cont'd)**

	Note	<u>Manufacturing</u> RM	<u>Trading</u> RM	<u>Elimination</u> RM	<u>Combined</u> RM
<b>2016 (cont'd)</b>					
<b>Results:-</b>					
Interest income		5,770	-	-	5,770
Interest expenses		(393,684)	-	-	(393,684)
Depreciation of property, plant and equipment		(1,161,228)	(881)	-	(1,162,109)
Tax expense		(1,529,527)	(351,077)	-	(1,880,604)
Other non-cash income	(i)	-	-	-	-
Segment profit		4,386,425	893,835	-	5,280,260
<b>Assets:-</b>					
Additions to non-current asset:-property, plant and equipment		4,362,536	2,642	-	4,365,178
<b>2017</b>					
<b>Revenue:-</b>					
External customers		40,051,141	20,696,146	-	60,747,287
Inter-segment		1,889,662	3,258,985	(5,148,647)	-
<b>Results:-</b>					
Interest income		20,772	-	-	20,772
Interest expenses		(902,316)	-	-	(902,316)
Depreciation of property, plant and equipment		(1,401,960)	(2,088)	-	(1,404,048)
Tax expense		(1,535,256)	(1,426,863)	-	(2,962,119)
Other non-cash expenses	(i)	(607,277)	-	-	(607,277)
Segment profit		4,616,214	3,921,542	-	8,537,756
<b>Assets:-</b>					
Additions to non-current asset:-property, plant and equipment		11,644,929	3,623	-	11,648,552
<b>2018</b>					
<b>Revenue:-</b>					
External customers		41,133,221	22,546,817	-	63,680,038
Inter-segment		2,932,318	5,223,608	(8,155,926)	-
<b>Results:-</b>					
Amortisation of investment properties		(13,658)	(4,650)	-	(18,308)
Interest expenses		(1,072,325)	-	-	(1,072,325)
Depreciation of property, plant and equipment		(1,371,070)	(98,492)	-	(1,469,562)
Tax expense		(1,644,930)	(1,251,028)	-	(2,895,958)
Other non-cash income	(i)	388,365	-	-	388,365
Segment profit		5,557,394	3,749,144	-	9,306,538

**11. ACCOUNTANTS' REPORT (Cont'd)****28. SEGMENTAL REPORTING – GROUP (CONT'D)****Business segments (cont'd)**

	Note	<u>Manufacturing</u> RM	<u>Trading</u> RM	<u>Elimination</u> RM	<u>Combined</u> RM
<b>2018 (cont'd)</b>					
<b>Assets:-</b>					
Additions to non-current asset:-property, plant and equipment		2,503,720	-	-	2,503,720

Notes to the nature of adjustments and eliminations to arrive at amounts reported in the Combined Financial Information:-

(i) Other material non-cash income/(expenses) consist of the following items:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
Bad debts written off	(15,596)	(44,276)	-	(38,767)
Gain on disposal of property, plant and equipment	407,581	-	21,999	51,407
Allowance for obsolete inventories	-	-	(244,741)	-
Allowance for doubtful debts	-	-	(384,535)	(125,574)
Reversal of impairment loss on trade receivables	56,261	44,276	-	256,558
Reversal of allowance for obsolete inventories	-	-	-	244,741
	<u>448,246</u>	<u>-</u>	<u>(607,277)</u>	<u>388,365</u>

**Geographical segments**

The Group operates in Malaysia. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The following table provides an analysis of the Group's revenue by geographical segment:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Revenue from external customers</b>				
Malaysia	34,991,220	36,856,960	56,324,567	58,998,784
Australia	3,666,391	3,735,032	2,083,265	1,171,476
Singapore	1,836,055	2,695,610	1,233,984	627,969
Others	46,932	1,086,356	1,105,471	2,881,809
	<u>40,540,598</u>	<u>44,373,958</u>	<u>60,747,287</u>	<u>63,680,038</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****28. SEGMENTAL REPORTING – GROUP (CONT'D)****Major customers**

There are no major customers with revenue equal or more than 10% of the Group's revenue for the financial years ended 31 December 2015, 2016 and 2017.

Revenue from one major customer amount to RM9,840,800 during the financial year ended 31 December 2018, arising from sales by the manufacturing segment.

**29. FINANCIAL INSTRUMENTS****29.1 Categories of financial instruments**

The financial instrument classifications in the prior period are in accordance with MFRS 139 as follows:-

- i. Loans and receivables ("L&R"); and
- ii. Other financial liabilities measured at amortised cost ("OFL")

	<u>Carrying amount</u> RM	<u>L&amp;R</u> RM	<u>OFL</u> RM
<b>2015</b>			
<b>Financial assets</b>			
Trade receivables	11,491,345	11,491,345	-
Other receivables	962,389	962,389	-
Cash and bank balances	1,033,763	1,033,763	-
	<u>13,487,497</u>	<u>13,487,497</u>	<u>-</u>
<b>Financial liabilities</b>			
Trade payables	7,348,923	-	7,348,923
Other payables and accruals	2,631,408	-	2,631,408
Amount due to Directors	2,959,161	-	2,959,161
Borrowings	4,522,947	-	4,522,947
Finance lease liabilities	889,943	-	889,943
	<u>18,352,382</u>	<u>-</u>	<u>18,352,382</u>
<b>2016</b>			
<b>Financial assets</b>			
Trade receivables	16,909,904	16,909,904	-
Other receivables	3,727,796	3,727,796	-
Cash and bank balances	2,169,527	2,169,527	-
	<u>22,807,227</u>	<u>22,807,227</u>	<u>-</u>
<b>Financial liabilities</b>			
Trade payables	9,192,595	-	9,192,595
Other payables and accruals	269,348	-	269,348
Amount due to Directors	2,899,161	-	2,899,161
Borrowings	10,285,302	-	10,285,302
Finance lease liabilities	1,885,355	-	1,885,355
	<u>24,531,761</u>	<u>-</u>	<u>24,531,761</u>



**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.1 Categories of financial instruments (cont'd)**

The financial instrument classifications in the prior period are in accordance with MFRS 139 as follows:-

- i. Loans and receivables ("L&R"); and
- ii. Other financial liabilities measured at amortised cost ("OFL")

	<u>Carrying amount</u> RM	<u>L&amp;R</u> RM	<u>OFL</u> RM
<u>2017</u>			
<b>Financial assets</b>			
Trade receivables	18,273,255	18,273,255	-
Other receivables	1,680,357	1,680,357	-
Cash and bank balances	5,333,052	5,333,052	-
	<u>25,286,664</u>	<u>25,286,664</u>	<u>-</u>
<b>Financial liabilities</b>			
Trade payables	12,366,575	-	12,366,575
Other payables and accruals	971,884	-	971,884
Amount due to Directors	1,799,161	-	1,799,161
Borrowings	17,026,413	-	17,026,413
Finance lease liabilities	1,723,479	-	1,723,479
Dividend payable	500,000	-	500,000
	<u>34,387,512</u>	<u>-</u>	<u>34,387,512</u>

The table below provides an analysis of financial instruments categorised as financial assets and financial liabilities measured at amortised cost ("AC").

	<u>Carrying amount</u> RM	<u>AC</u> RM
<u>2018</u>		
<b>Financial assets</b>		
Trade receivables	22,545,244	22,545,244
Other receivables	2,635,283	2,635,283
Cash and bank balances	3,930,897	3,930,897
	<u>29,111,424</u>	<u>29,111,424</u>
<b>Financial liabilities</b>		
Trade payables	11,287,264	11,287,264
Other payables and accruals	1,946,134	1,946,134
Amount due to Directors	14,500	14,500
Borrowings	16,073,384	16,073,384
Finance lease liabilities	1,549,498	1,549,498
	<u>30,870,780</u>	<u>30,870,780</u>

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**29. FINANCIAL INSTRUMENTS (CONT'D)**

**29.2 Financial risk management**

The Group is exposed to financial risks arising from its operations and the use of financial instruments. Financial risk management policy is established to ensure that adequate resources are available for the development of Group's business whilst managing its credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group operates within clearly defined policies and procedures that are approved by the Board of Directors to ensure the effectiveness of the risk management process. The Group does not actively engage in the trading of financial assets for speculative purposes nor do it write options. The Group does not apply hedge accounting.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows:-

**(a) Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It is the Group's policy to enter into financial instrument with a diversity of creditworthy counterparties. The Group does not expect to incur material credit losses of its financial assets or other financial instruments.

Concentration of credit risk exists when changes in economic, industry and geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation of the Group's total credit exposure. The Group's portfolio of financial instrument is broadly diversified along industry, product and geographical lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigate any significant concentration of credit risk.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group does not offer credit terms without the approval of the management.

Following are the areas where the Group is exposed to credit risk:-

**(i) Receivables**

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

With a credit policy in place to ensure the credit risk is monitored on an ongoing basis, management has taken reasonable steps to ensure that receivables are stated at their realisable values. A significant portion of the receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than credit terms granted are deemed to have higher credit risk and are monitored individually.

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.2 Financial risk management (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

**(a) Credit risk (cont'd)**

Following are the areas where the Group is exposed to credit risk (cont'd):-

**(i) Receivables (cont'd)**

The Group's exposure to credit risk are influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external rating, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly. Any sales exceeding those limits require approval from the risk management committee.

**Comparative information under MFRS 139 Financial Instruments: Recognition and Measurement**

The ageing of trade receivables and accumulated impairment loss of the Group as at 2016 and 2017 are as follows:-

	<u>Gross</u> RM	Individually <u>impaired</u> RM	<u>Net</u> RM
<u>2015</u>			
Within credit terms	2,297,168	-	2,297,168
Past due 1-30 days	2,557,504	-	2,557,504
Past due 31-60 days	2,019,473	-	2,019,473
Past due 61-90 days	2,386,346	-	2,386,346
Past due more than 90 days	2,275,130	(44,276)	2,230,854
	<u>11,535,621</u>	<u>(44,276)</u>	<u>11,491,345</u>
<u>2016</u>			
Within credit terms	4,620,131	-	4,620,131
Past due 1-30 days	3,951,937	-	3,951,937
Past due 31-60 days	3,521,725	-	3,521,725
Past due 61-90 days	1,956,561	-	1,956,561
Past due more than 90 days	2,859,550	-	2,859,550
	<u>16,909,904</u>	<u>-</u>	<u>16,909,904</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.2 Financial risk management (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

**(a) Credit risk (cont'd)**

Following are the areas where the Group is exposed to credit risk (cont'd):-

**(i) Receivables (cont'd)****Comparative information under MFRS 139 Financial Instruments: Recognition and Measurement (cont'd)**

The ageing of trade receivables and accumulated impairment loss of the Group as at 2015, 2016 and 2017 are as follows (cont'd) :-

	<u>Gross</u> RM	<u>Individually</u> <u>impaired</u> RM	<u>Net</u> RM
<u>2017</u>			
Within credit terms	4,571,824	-	4,571,824
Past due 1-30 days	3,944,108	-	3,944,108
Past due 31-60 days	3,105,808	-	3,105,808
Past due 61-90 days	2,491,420	-	2,491,420
Past due more than 90 days	4,544,630	(384,535)	4,160,095
	<u>18,657,790</u>	<u>(384,535)</u>	<u>18,273,255</u>

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:-

	<b>Trade receivables days past due</b>					<b>Total</b> RM
	<b>Not past due</b> RM	<b>1-30 days</b> RM	<b>31-60 days</b> RM	<b>61-90 days</b> RM	<b>&gt;90</b> <b>days</b> RM	
<u>2018</u>						
Expected credit loss rate	0%	0%	0%	0%	2.01%	
Total gross carrying amount	14,120,288	1,355,445	1,282,983	2,122,302	3,739,400	22,620,418
Expected credit loss	-	-	-	-	75,174	75,174

**(ii) Related parties balances**

The maximum exposure to credit risk is represented by their carrying amount in the combined statements of financial position.

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.2 Financial risk management (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

**(a) Credit risk (cont'd)**

Following are the areas where the Group is exposed to credit risk (cont'd):-

**(iii) Cash and cash equivalents**

The credit risk for cash and cash equivalents and short term placements is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due as a result of shortage of funds.

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

The Group aims at maintaining a balance of sufficient cash and deposits and flexibility in funding by keeping diverse sources of committed and uncommitted credit facilities from various banks.

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below:-

	Carrying amount <u>RM</u>	Contractual cash flow <u>RM</u>	Within 1 year <u>RM</u>	1 to 2 years <u>RM</u>	More than 2 years <u>RM</u>
<b>2015</b>					
Trade payables	7,348,923	7,348,923	7,348,923	-	-
Other payables and accruals	2,631,408	2,631,408	2,631,408	-	-
Amount due to Directors	2,959,161	2,959,161	2,959,161	-	-
Borrowings	4,522,947	6,794,020	670,075	373,329	5,750,616
Finance lease liabilities	889,943	963,511	356,100	338,186	269,225
	<u>18,352,382</u>	<u>20,697,023</u>	<u>13,965,667</u>	<u>711,515</u>	<u>6,019,841</u>
<b>2016</b>					
Trade payables	9,192,595	9,192,595	9,192,595	-	-
Other payables and accruals	269,348	269,348	269,348	-	-
Amount due to Directors	2,899,161	2,899,161	2,899,161	-	-
Borrowings	10,285,302	15,940,445	1,630,082	922,080	13,388,283
Finance lease liabilities	1,885,355	2,074,459	751,694	541,878	780,887
	<u>24,531,761</u>	<u>30,376,008</u>	<u>14,742,880</u>	<u>1,463,958</u>	<u>14,169,170</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.2 Financial risk management (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

**(b) Liquidity risk (cont'd)**

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below (cont'd):-

	Carrying amount <u>RM</u>	Contractual cash flow <u>RM</u>	Within 1 year <u>RM</u>	1 to 2 years <u>RM</u>	More than 2 years <u>RM</u>
<b>2017</b>					
Trade payables	12,366,575	12,366,575	12,366,575	-	-
Other payables and accruals	971,884	971,884	971,884	-	-
Amount due to Directors	1,799,161	1,799,161	1,799,161	-	-
Borrowings	17,026,413	24,884,014	2,427,508	1,336,838	21,119,668
Finance lease liabilities	1,723,479	1,877,778	720,883	635,651	521,244
Dividend payable	500,000	500,000	500,000	-	-
	<u>34,387,512</u>	<u>42,399,412</u>	<u>18,786,011</u>	<u>1,972,489</u>	<u>21,640,912</u>
<b>2018</b>					
Trade payables	11,287,264	11,287,264	11,287,264	-	-
Other payables and accruals	1,946,134	1,946,134	1,946,134	-	-
Amount due to Directors	14,500	14,500	14,500	-	-
Borrowings	16,073,384	23,502,261	1,958,500	1,366,500	20,207,261
Finance lease liabilities	1,549,498	1,645,514	865,942	626,594	152,978
	<u>30,870,780</u>	<u>38,395,673</u>	<u>16,072,340</u>	<u>1,993,094</u>	<u>20,360,239</u>

**(c) Foreign currency**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

To mitigate the Group's exposure to foreign currency risk, the Group is exposed to foreign currency risk on sales and purchases, that are denominated in another currency. The currencies giving rise to this risk is primarily United States Dollar (USD), Singapore Dollar (SGD) and Australia Dollar (AUD).

The Group's exposures to foreign currency risk, based on carrying amounts as at the end of the reporting period was:-

	USD RM	2015 Denominated in SGD RM	AUD RM
Trade receivables	-	116,168	105,630
Cash and bank balances	-	-	1,141
	-	<u>116,168</u>	<u>106,771</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.2 Financial risk management (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

**(c) Foreign currency (cont'd)**

The Group's exposures to foreign currency risk, based on carrying amounts as at the end of the reporting period was (cont'd) :-

	<b>USD RM</b>	<b>2016 Denominated in SGD RM</b>	<b>AUD RM</b>
Trade receivables	124,932	1,196,312	242,869
Cash and bank balances	-	-	12,393
	<u>124,932</u>	<u>1,196,312</u>	<u>255,262</u>

	<b>USD RM</b>	<b>2017 Denominated in SGD RM</b>	<b>AUD RM</b>
Trade receivables	-	200,684	589,191
Cash and bank balances	-	-	2,158
	<u>-</u>	<u>200,684</u>	<u>591,349</u>

	<b>USD RM</b>	<b>2018 Denominated in SGD RM</b>	<b>AUD RM</b>
Trade receivables	-	40,122	240,396
Cash and bank balances	-	-	5,794
	<u>-</u>	<u>40,122</u>	<u>246,190</u>

Exposure to foreign exchange rates vary during the financial years depending on the volume of overseas transactions.

As at the reporting date, the management of the Group determined the effects of sensitivity of the Group's profit for the financial years to a reasonable possible change in the USD, SGD and AUD exchange rates to be immaterial.

**(d) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.2 Financial risk management (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

**(d) Interest rate risk (cont'd)**

The Group's investments in fixed rate financial instruments are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate financial instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting date is as follows:-

	<u>2015</u> RM	<u>2016</u> RM	<u>2017</u> RM	<u>2018</u> RM
<b>Fixed rate instruments</b>				
Bankers acceptance	-	749,000	1,154,000	652,000
Finance lease liabilities	<u>889,943</u>	<u>1,885,355</u>	<u>1,723,479</u>	<u>1,549,498</u>
	<u>889,943</u>	<u>2,634,355</u>	<u>2,877,479</u>	<u>2,201,498</u>
<b>Floating rate instruments</b>				
Term loans	<u>4,522,947</u>	<u>9,536,302</u>	<u>15,872,413</u>	<u>15,421,384</u>

The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

A change in 50 basis point (bp) in interest rates at the end of the reporting period would have increase/(decrease) the Group's profit and equity by the amounts shown below. This analysis assumes that all other variables are held constant.

	Profit for the year		Equity	
	+50bp RM	-50bp RM	+50bp RM	-50bp RM
2015	<u>(22,615)</u>	<u>22,615</u>	<u>(22,615)</u>	<u>22,615</u>
2016	<u>(47,682)</u>	<u>47,682</u>	<u>(47,682)</u>	<u>47,682</u>
2017	<u>(79,362)</u>	<u>79,362</u>	<u>(79,362)</u>	<u>79,362</u>
2018	<u>(77,107)</u>	<u>77,107</u>	<u>(77,107)</u>	<u>77,107</u>



**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.3 Fair value of financial instruments**

The carrying amounts of short term receivables and payable, cash and cash equivalents and short term borrowings approximate their fair value due to the relatively short term nature of these financial instruments and insignificant impact of discounting.

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

	<b>Fair value of financial instruments not carried at fair value Level 2 RM</b>	<b>Carrying amount RM</b>
<b>2015</b>		
Finance lease liabilities	963,511	889,943
Borrowings	<u>6,794,020</u>	<u>4,522,947</u>
<b>2016</b>		
Finance lease liabilities	2,074,459	1,885,355
Borrowings	<u>15,940,445</u>	<u>10,285,302</u>
<b>2017</b>		
Finance lease liabilities	1,877,778	1,723,479
Borrowings	<u>24,884,014</u>	<u>17,026,413</u>
<b>2018</b>		
Finance lease liabilities	1,645,514	1,549,498
Borrowings	<u>23,502,261</u>	<u>16,073,384</u>

**Level 2 Fair Value**

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

**29.4 Reconciliation of liabilities arising from financing activities****2015**

	1 January 2015 RM	Cash flows RM	Others RM	31 December 2015 RM
Amount due to Directors	2,642,700	316,461	-	2,959,161
Borrowings	5,991,714	(1,468,767) <sup>^</sup>	-	4,522,947
Finance lease liabilities	1,123,802	(233,859)	-	889,943
Issuance of shares	-	1,500,000	(1,500,000)	-
Interest paid	-	(247,073)	247,073 <sup>#</sup>	-
	<u>9,758,216</u>	<u>(133,238)</u>	<u>(1,252,927)</u>	<u>8,372,051</u>

**11. ACCOUNTANTS' REPORT (Cont'd)****29. FINANCIAL INSTRUMENTS (CONT'D)****29.4 Reconciliation of liabilities arising from financing activities (cont'd)****2016**

	1 January 2016 RM	Cash flows RM	Others RM	31 December 2016 RM
Amount due to Directors	2,959,161	(60,000)	-	2,899,161
Borrowings	4,522,947	5,762,355 <sup>^</sup>	-	10,285,302
Finance lease liabilities	889,943	(460,568)	1,455,980*	1,885,355
Issuance of shares	-	600,000	(600,000)	-
Interest paid	-	(393,684)	393,684 <sup>#</sup>	-
	<u>8,372,051</u>	<u>5,448,103</u>	<u>1,249,664</u>	<u>15,069,818</u>

**2017**

	1 January 2017 RM	Cash flows RM	Others RM	31 December 2017 RM
Amount due to Directors	2,899,161	(1,100,000)	-	1,799,161
Borrowings	10,285,302	6,741,111 <sup>^</sup>	-	17,026,413
Finance lease liabilities	1,885,355	(702,926)	541,050*	1,723,479
Interest paid	-	(902,316)	902,316 <sup>#</sup>	-
	<u>15,069,818</u>	<u>4,035,869</u>	<u>1,443,366</u>	<u>20,549,053</u>

**2018**

	1 January 2018 RM	Cash flows RM	Others RM	31 December 2018 RM
Amount due to Directors	1,799,161	(1,784,661)	-	14,500
Borrowings	17,026,413	(953,029) <sup>^</sup>	-	16,073,384
Finance lease liabilities	1,723,479	(892,421)	718,440*	1,549,498
Dividend paid	-	(500,000)	500,000	-
Issuance of shares	-	2	(2)	-
Interest paid	-	(1,072,325)	1,072,325 <sup>#</sup>	-
	<u>20,549,053</u>	<u>(5,202,434)</u>	<u>2,290,763</u>	<u>17,637,382</u>

\* Being purchase of property, plant and equipment under finance lease liability.

# Being interest paid during the financial year.

<sup>^</sup> Being the net amount between drawdown of borrowings of RM5,089,000 (2017: RM7,940,349; 2016: RM8,060,914; 2015: RM1,914,472) and repayment of borrowings of RM6,042,029 (2017: RM1,199,238; 2016: RM2,298,559; 2015: RM3,383,239).

**11. ACCOUNTANTS' REPORT (Cont'd)****30. CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new share capital. There were no changes in the Group's approach to capital management during the financial years.

**31. EVENTS DURING REPORTING PERIOD**

- (a) On 16 March 2018, a subsidiary, MESB acquired 140,000 ordinary shares of RM1.00 each, representing 70% equity interest in Max Lighting Solution Sdn. Bhd. ("MLSSB") for a total cash consideration of RM140,000.
- (b) On 3 April 2018, a subsidiary, MESB acquired 300,000 ordinary shares of RM1.00 each, representing 60% equity interest in Meslite Sdn. Bhd. ("MSB") for a total cash consideration of RM300,000.
- (c) On 4 June 2018, a subsidiary, MESB entered into sales and purchase agreements with the Directors of the Company:-
  - (i) Disposal of parcel of leasehold land measuring approximately 0.1942 hectares held under PM 8591, Lot 16380, Mukim Dengkil, Daerah Sepang, Negeri Selangor with all structures erected thereon held by the Group for a cash consideration of RM760,000.
  - (i) Disposal of parcel of leasehold land measuring approximately 0.1704 hectares held under PM 7562, Lot 16379, Mukim Dengkil, Daerah Sepang, Negeri Selangor with all structures erected thereon held by the Group for a cash consideration of RM690,000.

The transactions were completed on 7 November 2018.

- (d) On 28 November 2018, the Company entered into a sales and purchase agreement with Sunteck Aluminium & Trading Sdn. Bhd. to dispose of an industrial leasehold land measuring approximately 4,234.6 square metres held under Lot 14003, Mukim Dengkil, Daerah Sepang, Negeri Selangor for a cash consideration of RM5,500,000.

As of the report date, the transaction yet to complete.

**32. EVENT AFTER REPORTING PERIOD**

- (a) On 28 August 2017, the Company entered into a sales and purchase agreement with Karumas Development Sdn. Bhd. to acquire of an industrial leasehold land measuring approximately 0.5522 hectare held under PM7561, Lot 16393, Mukim Dengkil, Daerah Sepang, Negeri Selangor for a cash consideration of RM4,755,040.

The transaction was completed on 2 January 2019.

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**11. ACCOUNTANTS' REPORT (Cont'd)**

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**32. EVENT AFTER REPORTING PERIOD (CONT'D)**

- (b) On 22 January 2019, a subsidiary, MESB entered into share sale agreements ("Agreements") to acquire the remaining 30% and 40% equity interest in Max Lighting Solution Sdn. Bhd, and Meslite Sdn. Bhd. from its minority interest shareholders for a cash consideration of RM134,907 and RM358,320 respectively.

The agreement shall be conditional upon the following:

- (i) the approval of the board of directors and shareholders of the Purchaser in respect of the transaction contemplated in this Agreement upon such terms and conditions set out herein;
- (ii) the approval from Bursa Securities in relation to the Proposed listing; and
- (iii) such other waivers, consents or approvals as may be required (or deemed necessary by the Parties) from any third party or governmental, regulatory body or relevant authorities having jurisdiction over any part of the sale and purchase of the Sale Shares contemplated under this Agreement

Upon completion of share sales agreements, MLSSB and MSB became wholly-owned subsidiary of MESB.

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**



**REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION**

Date: 2 May 2019

The Board of Directors  
**Mestron Holdings Berhad**  
PT 50102  
Jalan MU 1/9  
Seksyen 10  
Taman Perindustrian Meranti Utama  
47120 Puchong  
Selangor Darul Ehsan

**Grant Thornton Malaysia**  
(AF:0737)

Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur  
Malaysia

T +603 2692 4022  
F +603 2691 5229

Dear Sirs,

**MESTRON HOLDINGS BERHAD ("MESTRON HOLDINGS" OR "THE COMPANY") AND ITS PROPOSED SUBSIDIARIES ("MESTRON HOLDINGS GROUP", "PRO FORMA GROUP" OR "THE GROUP")**

**REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS ("REPORT")**

We have completed our assurance engagement to report on the compilation of the pro forma consolidated financial information of the Group prepared by the Board of Directors of the Company. The pro forma consolidated financial information consists of the pro forma consolidated statements of financial position as at 31 December 2018 together with the accompanying notes thereon, for which we have stamped for the purpose of identification. The pro forma consolidated financial information has been prepared for inclusion in the prospectus of the Company in connection with the initial public offering ("IPO") and the listing and quotation of the entire issued share capital of the Company on the Ace Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the pro forma consolidated financial information are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in Note 1 of the pro forma consolidated financial information ("Applicable Criteria").

The pro forma consolidated financial information has been compiled by the Board of Directors for illustrative purposes only, to illustrate the impact of the IPO on the financial position of the Group as at 31 December 2018 had the IPO been effected on 31 December 2018. As part of this process, information about the financial position of the Group has been extracted by the Board of Directors from the Group's audited financial information as at 31 December 2018 which have been audited.

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

The Board of Directors is responsible for compiling the pro forma consolidated financial information on the basis described in Note 1 of the pro forma consolidated financial information.

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**



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**Our Independence and Quality Control**

We are independent in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board of 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.

Our firm applies *International Standard on Quality Control ("ISQC") 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* 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' Responsibility**

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the pro forma consolidated financial information has been compiled, in all material respects, by the Board of Directors of the Company on the basis as described in Note 1 of the pro forma consolidated 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 International Auditing and Assurance Standard Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors of the Company have compiled, in all material respects, the pro forma consolidated financial information on the basis as set out in Note 1 of the pro forma consolidated financial information.

For the purpose 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 consolidated 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 consolidated financial information.

The purpose of pro forma consolidated financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group 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 events or transactions as at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma consolidated financial information have 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 Board of Directors in the compilation of the pro forma consolidated 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 consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**



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**Reporting Accountants' Responsibilities (cont'd)**

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

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

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

**Opinion**

In our opinion:-

- (i) The pro forma consolidated statements of financial position of the Group have been properly compiled on the basis as set out in the accompanying notes based on the audited financial statements of the Group for the financial year ended 31 December 2018 (which have been prepared by the Directors of Mestron Holdings), and in a manner consistent with both the format and the accounting policies adopted by the Group for the financial year ended 31 December 2018 and the adoption of new accounting policy as described in Note 1; and
- (ii) Each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position is appropriate for the purposes of preparing the pro forma consolidated statements of financial position.

**Other Matter**

This report has been prepared solely for the purpose stated above, in connection with the IPO and Listing. As such, this letter should not be used or relied upon for any other purpose without the prior written consent from us. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully

A handwritten signature in black ink, appearing to be 'R. S. S. S.', written over a circular stamp.

**GRANT THORNTON MALAYSIA**  
NO. AF: 0737  
CHARTERED ACCOUNTANTS

A handwritten signature in black ink, appearing to be 'Lian Tian Kwee', written over a circular stamp.

**LIAN TIAN KWEE**  
(NO: 02943/05/2019 J)  
CHARTERED ACCOUNTANT

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**

**1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME**

**1.1 Pro Forma Group**

The pro forma consolidated financial information of Mestron Holdings Berhad ("Mestron Holdings" or "the Company") and its proposed subsidiaries (collectively referred to as "Mestron Holdings Group", "Pro Forma Group" or "the Group") has been prepared for illustrative purposes only.

**1.2 Basis of Preparation**

The pro forma consolidated financial information of the Group has been prepared on the basis consistent with the accounting policies adopted by the Group for the financial year ended 31 December 2018, in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:-

**Merger method of accounting**

The pro forma consolidated statements of financial position are consolidated using the merger method as these companies are under the common control by the same party both before and after the acquisition of the Group. When the merger method is used, the difference between the cost of investment recorded by Mestron and the share capital of the subsidiaries are accounted for as merger deficit in the pro forma consolidated statements of financial position. The Group is regarded as a continuing entity resulting from the reorganisation exercise because the management of all the entities within the Group, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the start of the earliest period presented in the financial statements.

The audited financial statements of the Group as at 31 December 2018 were not subject to any audit qualification.

The pro forma consolidated financial information, because of its nature, may not reflect the actual financial position of the Group. Further, such information does not predict the future financial position of the Group.

The pro forma consolidated financial information of the Group comprises pro forma consolidated statements of financial position as at 31 December 2018, adjusted for the impact of the Listing Scheme as set out in Note 1.3 of this pro forma consolidated financial information.



**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**

**1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONT'D)**

**1.3 Listing Scheme**

**(a) Pro Forma I : Acquisitions**

**(i) Acquisition under Mestron Engineering Sdn. Bhd.**

On 22 January 2019, Mestron Engineering Sdn. Bhd. entered into share sale agreements ("Agreement") to acquire an additional 30% and 40% equity interest in Max Lighting Solution Sdn. Bhd, and Meslite Sdn. Bhd. from its non-controlling interests for a cash consideration of RM134,907 and RM358,320 respectively.

**(ii) Acquisition under Mestron Holdings**

Acquisitions entails acquiring the entire equity interest of the Mestron Engineering Sdn. Bhd., for a total purchase consideration of RM31,599,999.90, to be satisfied via the issuance of 631,999,998 new Shares at RM0.05 per share.

**(b) Pro Forma II: Public Issue**

Public issue of 158,000,000 Shares, representing 20% of the enlarged share capital are offered at IPO price of RM0.16 each ("IPO Price") The issue Shares shall be allocated in the following manner:

**(i) Malaysian Public**

39,500,000 Issue Shares, representing 5.0% of the enlarged share capital, will be made available for application by the Malaysian Public, to be allocated via balloting process as follows:

- 19,750,000 Issue Shares made available to public investors; and
- 19,750,000 Issue Shares made available to Bumiputera public investors.

**(ii) Eligible Directors and employees who have contributed to the success of the Mestron Holdings Group**

8,750,000 Issue Shares, representing 1.1% of the enlarged share capital, will be reserved for the eligible Directors and employees who have contributed to the success of the Mestron Holdings Group.

**(iii) Private placement to selected investors**

30,750,000 Shares, representing 3.9% of the enlarged share capital after the IPO, have been reserved for private placement to selected investors.

**(iv) Private placement to Bumiputera investors approved by Ministry of International Trade and Industry**

79,000,000 Issue Shares, representing 10.0% of the enlarged share capital after the IPO, have been reserved for private placement to selected Bumiputera investors approved by Ministry of International Trade and Industry.

## 12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

### MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

#### 1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONT'D)

##### 1.3 Listing Scheme (Cont'd)

###### (c) Offer for Sale

A total of 79,000,000 Offer Shares, representing 10.0% the enlarged share capital, have been reserved by the Selling Shareholders to selected investors by way private placement at IPO price.

###### (d) Pro Forma III: Utilisation of Proceeds

Gross proceeds from the IPO of RM25,280,000 are expected to be utilised as follows:

Details of utilisation	Estimated timeframe for utilisation upon listing	RM
Expansion of main manufacturing facility and acquisition of manufacturing machineries and equipment	Within 24 months	13,000,000
Working capital	Within 12 months	5,180,000
Repayment of bank borrowings	Within 6 months	4,000,000
Estimated listing expenses	Within 1 months	3,100,000
<b>Total estimated proceeds</b>		<b>25,280,000</b>

##### 1.4 Auditors of Mestron Holdings Group

The auditors of the audited financial statements of Mestron Holdings Group for the financial year ended 31 December 2018 are as follows:

Company	Auditor
i. Mestron Holdings Berhad	Grant Thornton Malaysia
ii. Mestron Engineering Sdn. Bhd.	Grant Thornton Malaysia
<b>Subsidiaries of Mestron Engineering Sdn. Bhd.</b>	
i. Meslite Sdn. Bhd.	Grant Thornton Malaysia
ii. Max Lighting Solution Sdn. Bhd.	Grant Thornton Malaysia

The audited financial statements of Mestron Holdings Group for the financial year ended 31 December 2018 were not subject to any qualification or modification.

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**

**2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

The pro forma consolidated statements of financial position ("SOPF") as at 31 December 2018 has been prepared for illustrative purposes only to show the effects on Mestron Holdings Group as at 31 December 2018 based on the assumption that the Listing Scheme as set out in Note 1.3 of the pro forma consolidated financial information had been effected on 31 December 2018.

	Statement of Financial Position at 31 December 2018 RM	Adjustments for Acquisitions RM	Pro forma I After Acquisitions RM	Adjustments for Public Issue RM	Pro forma II After Proforma I and Public Issue RM	Adjustments for Utilisation of Proceeds RM	Pro forma III After Proforma II and Utilisation of Proceeds RM
<b>ASSETS</b>							
Non-current assets							
Property, plant and equipment	3.1	23,135,620	23,135,620	-	23,135,620	13,000,000	36,135,620
Investment properties		1,355,210	1,355,210	-	1,355,210	-	1,355,210
Total non-current assets		24,490,830	24,490,830	-	24,490,830	13,000,000	37,490,830
Current assets							
Inventories		9,706,621	9,706,621	-	9,706,621	-	9,706,621
Trade receivables		22,545,244	22,545,244	-	22,545,244	-	22,545,244
Other receivables		2,576,232	2,576,232	-	2,576,232	-	2,576,232
Cash and bank balances	3.2	3,925,964	3,930,897	25,280,000	29,210,897	(20,100,000)	9,110,897
Total current assets		38,754,061	38,758,994	25,280,000	64,038,994	(20,100,000)	43,938,994
Assets held for sale		4,376,920	4,376,920	-	4,376,920	-	4,376,920
Total assets	4,933	67,621,811	67,626,744	25,280,000	92,906,744	(7,100,000)	85,806,744
<b>EQUITY AND LIABILITIES</b>							
Share capital	3.3	31,600,000	31,600,002	25,280,000	56,880,002	-	56,880,002
Merger deficit	3.4	(29,100,000)	(29,100,000)	-	(29,100,000)	-	(29,100,000)
Retained earnings	3.5	33,921,824	33,890,737	-	33,890,737	(3,100,000)	30,790,737
Total equity	(31,065)	36,421,824	36,390,739	25,280,000	61,670,739	(3,100,000)	58,570,739

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)****MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES****2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

	Statement of Financial Position at 31 December 2018 RM	Adjustments for Acquisitions RM	Pro forma I After Acquisitions RM	Adjustments for Public Issue RM	Pro forma II After Proforma I and Public Issue RM	Adjustments for Utilisation of Proceeds RM	Pro forma III After Proforma II and Utilisation of Proceeds RM
<b>LIABILITIES</b>							
Non-current liabilities							
Borrowings	3.6	-	14,933,783	-	14,933,783	(3,837,704)	11,096,079
Finance lease liabilities	-	752,473	752,473	-	752,473	-	752,473
Deferred tax liabilities	-	298,000	298,000	-	298,000	-	298,000
Total non-current liabilities	-	15,984,256	15,984,256	-	15,984,256	(3,837,704)	12,146,552
Current liabilities							
Trade payables	-	11,287,264	11,287,264	-	11,287,264	-	11,287,264
Other payables	6,998	1,939,136	1,946,134	-	1,946,134	-	1,946,134
Amount due to directors	14,500	-	14,500	-	14,500	-	14,500
Amount due to a related party	14,500	(14,500)	-	-	-	-	-
Borrowings	-	1,139,601	1,139,601	-	1,139,601	(162,296)	977,305
Finance lease liabilities	-	797,025	797,025	-	797,025	-	797,025
Tax payables	-	67,205	67,205	-	67,205	-	67,205
Total current liabilities	35,998	15,215,731	15,251,729	-	15,251,729	(162,296)	15,089,433
Total liabilities	35,998	31,199,987	31,235,985	-	31,235,985	(4,000,000)	27,235,985
Total equity and liabilities	4,933	67,621,811	67,626,744	25,280,000	92,906,744	(7,100,000)	85,806,744
Issued of ordinary share capital (unit)	3.3	2	631,999,998	-	632,000,000	158,000,000	790,000,000
Net assets per share (RM)	(15.533)		0.06		0.10		0.07
Borrowings (RM)	-		17,622,882		17,622,882		13,622,882
Gearing (Times)	-		0.48		0.29		0.23
			8				
			261				

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**

**3. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**3.1 PROPERTY, PLANT AND EQUIPMENT**

The movements of the property, plant and equipment are as follows:

	<u>Amount</u> RM
As at 31 December 2018	-
Pursuant to acquisition of subsidiary	<u>23,135,620</u>
As per Pro Forma I and II	23,135,620
Utilisation of proceeds	<u>13,000,000</u>
As per Pro Forma III	<u>36,135,620</u>

**3.2 CASH AND BANK BALANCES**

The movements of the cash and bank balances are as follows:

	<u>Amount</u> RM
As at 31 December 2018	4,933
Pursuant to acquisition of subsidiary	<u>3,925,964</u>
As per Pro Forma I	3,930,897
Pursuant to public issue	<u>25,280,000</u>
As per Pro Forma II	29,210,897
Estimated capital expenditure	(13,000,000)
Repayment of bank borrowings	(4,000,000)
Estimated listing expenses	<u>(3,100,000)</u>
As per Pro Forma III	<u>9,110,897</u>

**3.3 SHARE CAPITAL**

The movements of the issued share capital are as follows:

	<u>No. of Shares</u>	<u>Amount</u> RM
As at 31 December 2018	2	2
Pursuant to issuance of share for the acquisition of subsidiary	<u>631,999,998</u>	<u>31,600,000</u>
As per Pro Forma I	632,000,000	31,600,002
Pursuant to public issue	<u>158,000,000</u>	<u>25,280,000</u>
As per Pro Forma II and III	<u>790,000,000</u>	<u>56,880,002</u>

**12. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**
**MESTRON HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**
**3.4 MERGER DEFICIT**

The movements of the merger deficit are as follows:

	<u>Amount</u> RM
As at 31 December 2018	-
Pursuant to acquisition of subsidiary:-	
Issuance of shares of Mestron	31,600,000
Share capital of proposed subsidiary	<u>(2,500,000)</u>
As per Pro Forma I to III	<u>29,100,000</u>

**3.5 RETAINED EARNINGS**

The movements of the retained earnings are as follows:

	<u>Amount</u> RM
As at 31 December 2018	(31,067)
Pursuant to acquisition of subsidiary	<u>33,921,824</u>
As per Pro Forma I and II	33,890,757
Estimated listing expenses	<u>(3,100,000)</u>
As per Pro Forma III	<u>30,790,757</u>

**3.6 BORROWINGS – NON-CURRENT**

The movements of the borrowings are as follows:

	<u>Amount</u> RM
As at 31 December 2018	-
Pursuant to acquisition of subsidiary	<u>14,933,783</u>
As per Pro Forma I and II	14,933,783
Estimated repayment of bank borrowings	<u>(3,837,704)</u>
As per Pro Forma III	<u>11,096,079</u>

**3.7 BORROWINGS – CURRENT**

The movements of the borrowings are as follows:

	<u>Amount</u> RM
As at 31 December 2018	-
Pursuant to acquisition of subsidiary	<u>1,139,601</u>
As per Pro Forma I and II	1,139,601
Estimated repayment of bank borrowings	<u>(162,296)</u>
As per Pro Forma III	<u>977,305</u>

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### **13. ADDITIONAL INFORMATION**

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#### **13.1 EXTRACT OF OUR CONSTITUTION**

The following provisions are extracted from our Company's Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires. The following provisions extracted from our Company's Constitution are based on the current Listing Requirements and the Act.

##### **(1) Remuneration of Directors**

###### **Clause 115 – Remuneration**

The fees and any benefits payable to the Directors from time to time, be subject to annual shareholder approval at general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, 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 shall 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 that Director.

###### **Clause 116 – Reimbursement and Special Remuneration**

- (a) 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.
- (b) 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.

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**13. ADDITIONAL INFORMATION (Cont'd)**

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**(2) Voting and Borrowing Powers of the Directors**

**Clause 120 - Directors' Borrowing Powers**

- (a) 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.
- (b) The Directors shall cause a proper register to be kept in accordance with Section 60 of the Act of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Act in regard to the registration of mortgages and charges therein specified or otherwise.
- (c) Subject to the Act, if the Directors or any of them, or any other person, shall become personally liable for the payment of any sum primarily due from the Company, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors, or persons so becoming liable as aforesaid, from any loss in respect of such liability.

**Clause 132 – Proceedings of Meeting**

A meeting of the Directors, for the time being at which a quorum is present, shall be competent to exercise all or any of the powers, authorities and discretion by or under this Constitution, vested in or exercisable by the Directors generally. Subject to this Constitution, questions arising at any meeting of the Directors shall be decided by a majority of votes.

**Clause 133 – Chairman has Casting Vote**

In case of equality of votes, the Chairman shall have a second or casting vote, except where only two (2) Directors are competent to vote on the question at issue, or at the meeting where only two (2) Directors form the quorum.

**Clause 138 – Directors retained from Voting in Interested Transactions**

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.



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**13. ADDITIONAL INFORMATION (Cont'd)**

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**Clause 140 – Director may Vote on the Giving of Security or Indemnity where he is Interested**

Subject to Clause 138, 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.

By an 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.

**(3) Share Capital and Variation of Class Rights**

**Clause 60 – Increase of Share Capital**

The Company may, from time to time, whether all the shares for the time being issued shall have been fully paid up or not, 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 to carry such 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 61 – Issue of New Shares to Existing Members**

Subject to any direction to the contrary that may be given by the Company in general meeting, all new shares or other convertible Securities shall, before they are issued, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or Securities to which they are entitled. The offer shall be made by notice specifying the number of shares or Securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or Securities offered, the Directors may dispose of those shares or Securities in such manner as they think most beneficial to the Company. The Directors may, likewise, also dispose of any new shares or Securities which (by reason of the ratio which the new shares or Securities bear to shares or Securities held by persons entitled to an offer of new shares or Securities) cannot, in the opinion of the Directors, be conveniently offered under this Clause.

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**13. ADDITIONAL INFORMATION (Cont'd)**

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**Clause 62 – Alteration of Share Capital**

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) 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
- (c) 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 63 – Capital Reduction**

The Company may, subject to the Act, by special resolution, reduce its share capital in any manner authorised by law.

**Clause 25 – Modification of Rights**

If at any time the share capital of the Company, by reason of the issuance of preference shares or otherwise is divided into different classes, the repayment of such preferred capital or all or any of the rights and privileges attached to each class of shares may subject to the provisions of Section 91 of the Act, this Constitution and the provisions of any written law, be varied, modified, commuted, affected, abrogated or dealt with by resolution passed by the holders of at least three-fourth of the issued shares of that class at a separate meeting of the holders of that class and all the provisions hereinafter contained as to general meetings shall mutatis mutandis apply to every such meeting except that the quorum hereof shall be two (2) persons at least holding or representing by proxy one third of the issued shares of the class and for an adjourned meeting one (1) person holding shares of such class.

Provided however that in the event of the necessary majority for such a resolution not having been obtained in the manner aforesaid consent in writing may be secured by members holding at least three- fourths of the issued shares of the class and such consent if obtained within two (2) months from the date of the separate meeting shall have the force and validity of a resolution duly carried. To every such resolution the provisions of Section 91 of the Act, shall with such adaptations as are necessary apply.

**Clause 26 – Special Right to Any Class of Share**

The special rights attached to any class of shares having preferential rights shall not unless otherwise expressly provided by the terms of issue thereof be deemed to be varied by the creation or issue of further shares ranking as regards participation in profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto.

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**13. ADDITIONAL INFORMATION (Cont'd)**

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**Clause 12 – Power to Issue Preference Shares**

The Company shall have power to issue preference shares ranking equally with or in priority to preference shares already issued and the Directors may, subject to the provisions of the Act, redeem such shares on such terms and in such manner as they may think fit.

**Clause 13 – Rights of Preference Shareholders**

- (a) Save as otherwise specifically provided for under this Constitution in respect of any particular class of preference shares and subject to the Act, preference shareholders shall have the same right as ordinary shareholders as regards to receiving notices, reports and audited financial statements and attending general meetings of the Company.
- (b) Save as otherwise specifically provided for under this Constitution in respect of any particular class of preference share, preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the share capital of the Company or sanctioning a disposal of the whole of the Company's property, business and undertaking or where the proposition to be submitted to the meeting directly affects their rights and privileges, or when the dividend or part of the dividend on the preference shares is in arrears for more than six (6) months or on a proposal to wind up the Company or during the winding up of the Company, but shall have no other rights whatsoever.
- (c) The holder of a preference share must be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up.

**Clause 17 – Shares Issued for Purposes of Raising Money for the Construction of Works or Building**

Subject to Section 130 of the Act and any other conditions and restrictions prescribed by the Act, if any shares of the Company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant or equipment which cannot be made profitable for a lengthened period, the Company may pay interest on so much of that share capital as is for the time being paid up for the period, and may charge the sum so paid by way of interest to capital as part of the costs of construction of the work or building or the provision of plant or equipment.

**(4) Transfer of Shares**

**Clause 49 – Transfer of Securities**

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 and, notwithstanding Sections 105, 106 or 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.

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**13. ADDITIONAL INFORMATION (Cont'd)**

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**Clause 50 – Instrument of Transfer**

- (a) Every instrument of transfer (for any share not being a deposited security) must be left for registration at the office of the Company's Registrar accompanied by the certificate of the shares comprised therein (if any) and such evidence as the Directors may reasonably require to prove the right of the transferor to make the transfer and the due execution by him of the transfer, and subject to the power vested in the Directors by this Constitution or the provisions of any other written law and if required, to reasonable evidence of nationality, the Company shall register the transferee as shareholder.
- (b) A fee not exceeding RM3.00 (excluding the stamp duty) or any amount as shall be determined from time to time by the Exchange may be charged for each transfer and shall if required by the Directors be paid before the registration thereof.

**Clause 51 – Person Under Disability**

No share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

**Clause 52 – Refusal to Transfer and Notice of Refusal**

- (a) Subject to Section 106 and any other relevant provisions of the Act, the Directors may refuse or delay to register the transfer of a share, not being a deposited security, to a person of whom they shall not approve.
- (b) If the Directors passed a resolution to refuse or delay the registration of a transfer, they shall, within seven (7) days of the resolution being passed, give to the lodging broker, transferor and the transferee written notice of the resolution setting out the precise reasons thereof.

**Clause 53 – Non-Liability of the Company, its Directors and Officers in Respect of Transfer**

Neither the Company nor its Directors nor any of its officers shall incur any liability for registering or acting upon a transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred, and although the transfer may, as between the transferor and transferee, be liable to be set aside, and notwithstanding that the Company may have notice that such instrument of transfer was signed or executed and delivered by the transferor in blank as to the name of the transferee or the particulars of the shares transferred or otherwise in defective manner. And in every such case, the person registered as transferee, his executors, administrators and assigns alone shall be entitled to be recognised as the holder of such shares and the previous holder shall, so far as the Company is concerned, be deemed to have transferred his whole title thereto.

**13.2 LIMITATION ON RIGHT TO OWN SECURITIES**

There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

**13. ADDITIONAL INFORMATION (Cont'd)****13.3 SHARE CAPITAL**

- (a) Save as disclosed in Sections 4.4, 6.1 and 6.2, no shares of our Company or our direct and indirect subsidiaries have been issued or are prepared to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years preceding the date of this Prospectus.
- (b) None of our Group's capital is under option, or agreed conditionally or unconditionally to be put under option.
- (c) Save for 8,750,000 Shares under the Pink Form Allocations as disclosed in Sections 4.3.1(b) and 4.3.3, respectively,
- (i) no Director or employee of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiaries; and
- (ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.
- (d) Other than our Public Issue as disclosed in Section 4.3.1, there is no intention on the part of our Directors to further issue any Shares.

**13.4 CHANGES IN SHARE CAPITAL****13.4.1 Mestron Engineering**

As at the LPD, Mestron Engineering's share capital is RM2,500,000 comprising 2,500,000 ordinary shares. The movements in the share capital of Mestron Engineering since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of shares allotted</u>	<u>Consideration/ Type of issue</u> <u>RM</u>	<u>Cumulative share capital</u> <u>RM</u>
10 September 2002	2	2 / Subscribers' shares	2.00
16 July 2003	199,998	199,998 / Issue for cash	200,000
1 August 2005	300,000	300,000 / Issue for cash	500,000
15 December 2010	500,000	500,000 / Bonus issue	1,000,000
31 December 2015	1,500,000	1,500,000 / Issue for cash	2,500,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Mestron Engineering. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

As at the LPD, the Directors of Mestron Engineering are Por Teong Eng and Loon Chin Seng.

**13. ADDITIONAL INFORMATION (Cont'd)**

The changes in the shareholding structure of Mestron Engineering since its incorporation up to the LPD are as follows:

No	Nature of issuance	Date	Transferor	Transferee/ allottee	No of shares allotted/ transferred by transferor	Resultant no. of shares held by transferee / allottee	%
1.	Subscriber's shares	10 September 2002	-	Loh Kuan Chween	1	1	50.0
				Yap Liew Mee	1	1	50.0
					<b>2</b>	<b>2</b>	<b>100.0</b>
2.	Transfer	25 September 2002	Loh Kuan Chween Yap Liew Mee	Por Teong Eng	1	1	50.0
				Loon Chin Seng	1	1	50.0
					<b>2</b>	<b>2</b>	<b>100.0</b>
3.	Transfer	24 October 2002	-	Por Teong Eng	-	1	50.0
				Loon Chin Seng Lee Woon Kee	1	1	50.0
					<b>1</b>	<b>2</b>	<b>100.0</b>
4.	Allotment of new shares	16 July 2003	-	Por Teong Eng	79,999	80,000	40.0
				Lee Woon Kee	119,999	120,000	60.0
5.	Transfer	18 June 2004	Lee Woon Kee Lee Woon Kee	Por Teong Eng	50,000	130,000	65.0
				Phua Chiu Keng	70,000	70,000	35.0
					<b>120,000</b>	<b>200,000</b>	<b>100.0</b>
6.	Allotment of new shares	1 August 2005	-	Por Teong Eng	70,000	200,000	40.0
				Phua Chiu Keng	230,000	300,000	60.0
					<b>300,000</b>	<b>500,000</b>	<b>100.0</b>
7.	Transfer	14 August 2006	-	Por Teong Eng	-	200,000	40.0
				Phua Chiu Keng Loon Chin Seng	300,000	300,000	60.0
					<b>300,000</b>	<b>500,000</b>	<b>100.0</b>
8.	Transfer	31 December 2008	Loon Chin Seng -	Por Teong Eng	25,000	225,000	45.0
				Loon Chin Seng	-	225,000	45.0
				Loon Chin Seng Longmont Management Pty Ltd	50,000	50,000	10.0
					<b>75,000</b>	<b>500,000</b>	<b>100.0</b>
9.	Allotment of new shares	15 December 2010	-	Por Teong Eng	225,000	450,000	45.0
				Loon Chin Seng	225,000	450,000	45.0
				Loon Chin Seng Longmont Management Pty Ltd	50,000	100,000	10.0
					<b>400,000</b>	<b>1,000,000</b>	<b>100.0</b>
10.	Transfer	11 July 2012	Longmont Management Pty Ltd Longmont Management Pty Ltd	Por Teong Eng	50,000	500,000	50.0
				Loon Chin Seng	50,000	500,000	50.0
					<b>100,000</b>	<b>1,000,000</b>	<b>100.0</b>
11.	Allotment of new shares	31 December 2015	-	Por Teong Eng	750,000	1,250,000	50.0
				Loon Chin Seng	750,000	1,250,000	50.0
					<b>1,500,000</b>	<b>2,500,000</b>	<b>100.0</b>

**13. ADDITIONAL INFORMATION (Cont'd)**

No	Nature of issuance	Date	Transferor	Transferee/ allottee	No of shares allotted/ transferred by transferor	Resultant no. of shares held by transferee / allottee	%
12.	Transfer	25 April 2019	Por Teong Eng Loon Chin Seng	Mestron Holdings Mestron Holdings	1,250,000 1,250,000	2,500,000	100.0

**13.4.2 Meslite**

As at the LPD, Meslite's share capital is RM500,000 comprising 500,000 ordinary shares. The movements in the share capital of Meslite since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue RM	Cumulative share capital RM
7 June 2010	2	2 / Subscribers' shares	2
18 September 2012	99,998	99,998 / Issue for cash	100,000
21 April 2016	400,000	400,000 / Issue for cash	500,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Meslite. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

As at the LPD, the Directors of Meslite are Por Teong Eng, Loon Chin Seng and Pee Kok Keong.

The changes in shareholding structure of Meslite since its incorporation up to the LPD are as follows:

No	Nature of issuance	Date	Transferor	Transferee/ allottee	No of shares allotted/ transferred by transferor	Resultant no. of shares held by transferee / allottee	%
1.	Subscriber's shares	7 June 2010	-	Por Teong Eng	1	1	50.0
				Pee Kok Keong	1	1	50.0
					<b>2</b>	<b>2</b>	<b>100.0</b>
2.	Allotment of new shares	18 September 2012	-	Por Teong Eng	59,999	60,000	60.0
				Pee Kok Keong	39,999	40,000	40.0
					<b>99,998</b>	<b>100,000</b>	<b>100.0</b>
3.	Allotment of new shares	21 April 2016	-	Por Teong Eng	90,000	150,000	30.0
				Pee Kok Keong	160,000	200,000	40.0
				Loon Chin Seng	150,000	150,000	30.0
					<b>400,000</b>	<b>500,000</b>	<b>100.0</b>
4.	Transfer	3 April 2018	Por Teong Eng Loon Chin Seng -	Mestron Engineering	300,000	300,000	60.0
				Pee Kok Keong	-	200,000	40.0
					<b>300,000</b>	<b>500,000</b>	<b>100.0</b>

**13. ADDITIONAL INFORMATION (Cont'd)**

No	Nature of issuance	Date	Transferor	Transferee/ allottee	No of shares allotted/ transferred by transferor	Resultant no. of shares held by transferee / allottee	%
5.	Transfer	25 April 2019	Pee Kok Keong	Mestron Engineering	200,000	500,000	100.0

**13.4.3 Max Lighting**

As at the LPD, Max Lighting's share capital is RM200,000 comprising 200,000 ordinary shares. The movements in the share capital of Max Lighting since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue RM	Cumulative share capital RM
26 February 2016	4	4 / Subscribers' shares	4
10 August 2016	199,996	199,996 / Issue for cash	200,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Max Lighting. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

As at the LPD, the Directors of Max Lighting are Loon Chin Seng and Lee Yong Kong.

The changes in shareholding structure of Max Lighting since its incorporation up to the LPD are set out as follows:

No	Nature of issuance	Date	Transferor	Transferee/ allottee	No of shares allotted/ transferred by transferor	Resultant no. of shares held by transferee / allottee	%
1.	Subscriber's shares	26 February 2016	-	Loon Chin Seng	1	1	25.0
				Loon Chin Meng	1	1	25.0
				Lee Chun Heng	1	1	25.0
				Mohd Faizal Bin Mohd Noor	1	1	25.0
					<b>4</b>	<b>4</b>	<b>100.0</b>
2.	Allotment	10 August 2016	-	Loon Chin Seng	79,999	80,000	40.0
				Loon Chin Meng	39,999	40,000	20.0
				Lee Chun Heng	19,999	20,000	10.0
				Mohd Faizal Bin Mohd Noor	19,999	20,000	10.0
				Por Teong Eng	40,000	40,000	20.0
					<b>199,996</b>	<b>200,000</b>	<b>100.0</b>
3.	Transfer	16 March 2018	Loon Chin Seng Loon Chin Meng Lee Chun Heng	Mestron Engineering	140,000	140,000	70.0



**13. ADDITIONAL INFORMATION (Cont'd)**

No	Nature of issuance	Date	Transferor	Transferee/ allottee	No of shares allotted/ transferred by transferor	Resultant no. of shares held by transferee / allottee	%
			Por Teong Eng Mohd Faizal Bin Mohd Noor	Lee Yong Kong	60,000	60,000	30.0
					<b>200,000</b>	<b>200,000</b>	<b>100.0</b>
4.	Transfer	25 April 2019	Lee Yong Kong	Mestron Engineering	60,000	200,000	100.0

**13.5 CONSENTS**

- (a) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretary and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;
- (b) The written consents of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and letter relating to the pro forma consolidated financial information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and
- (c) The written consent of the IMR to the inclusion in this Prospectus of their name and the IMR Report in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

**13.6 DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

- (a) Constitution of our Company;
- (b) The audited financial statements of Mestron Holdings for FYE 2018 and audited financial statements of our subsidiaries for the past 4 FYE 2015, 2016, 2017 and 2018;
- (c) The Accountants' Report as set out in Section 11;
- (d) The Reporting Accountants' reports relating to our pro forma consolidated financial information as set out in Section 12;
- (e) The IMR Report as set out in Section 7;
- (f) The material contracts as set out in Section 6.15; and
- (g) The letters of consent as set out in Section 13.5.

## 14. 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 THE ISSUING HOUSE 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.

### 14.1 OPENING AND CLOSING OF APPLICATION

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 23 May 2019

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 3 June 2019

In the event of any changes to the date or time for closing, we will advertise the notice of changes in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

**LATE APPLICATIONS WILL NOT BE ACCEPTED.**

### 14.2 METHODS OF APPLICATION

#### 14.2.1 Retail Offering

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

<b>Types of Application and category of investors</b>	<b>Application Method</b>
Applications by our eligible Directors and employees	Pink Application Form only
Applications by the Malaysian Public:	
(i) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(ii) Non-Individuals	White Application Form only

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**14. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**


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**14.2.2 Placement**

<u>Types of Application</u>	<u>Application Method</u>
Applications by:	
(i) Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(ii) Bumiputera investors approved by MITI	MITI will contact the Bumiputera Investors directly. They should follow MITI's instructions.

**14.3 ELIGIBILITY****14.3.1 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 the list of 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.**

**14.3.2 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

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**14. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

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- (c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (ii) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and
- (iii) You must submit Applications by using only one of the following methods:
  - (a) White Application Form; or
  - (b) Electronic Share Application; or
  - (c) Internet Share Application.

**14.3.3 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.

**14.4 APPLICATIONS BY WAY OF APPLICATION FORM**

**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 RM0.16 for each IPO Share.

Payment must be made out in favour of "**TIIH SHARE ISSUE ACCOUNT NO. 683**" 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:

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)  
Unit 32-01, Level 32, Tower A  
Vertical Business Suite  
Avenue 3, Bangsar South  
No. 8, Jalan Kerinchi  
59200 Kuala Lumpur

- (ii) **DELIVERED BY HAND AND DEPOSITED** in the drop-in boxes provided at their Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 3 June 2019 or by such other time and date specified in any change to the date or time for closing.

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**14. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**

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We, together with the Issuing House, 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 the Issuing House.

**14.5 APPLICATIONS BY WAY OF ELECTRONIC SHARE APPLICATION**

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.

**14.6 APPLICATIONS BY WAY OF INTERNET SHARE APPLICATION**

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.

**14.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE**

The Issuing House, 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 14.8 below.

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**14. 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 the Issuing House 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.

**14.8 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.

**14.8.1 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 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.
- (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 the Issuing House as per items (i) and (ii) above (as the case may be).
- (iv) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 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).

**14.8.2 For applications by way of Electronic Share Application and Internet Share Application**

- (i) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 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 Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.
- (ii) You may check your account on the 5<sup>th</sup> Market Day from the balloting date.

## 14. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

- (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 the Issuing House 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 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 Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

### 14.9 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.
- (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.
- (iv) In accordance with Section 29 of the SICDA, all dealings in our 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.

### 14.10 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	Issuing House Enquiry Services Telephone at 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at <https://tiih.online>, **one Market Day** after the balloting date.

You may also check the status of your Application at the above website, **five Market Days** after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of 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.