

9. 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.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 We are dependent on our key major customer with whom we do not have any long-term contract

For FYE 2015, FYE 2016, FYE 2017 and FYE 2018, our single largest customer is the Dyson Group of Companies, which had contributed approximately 54.1%, 61.5%, 66.5% and 65.5% to our Group's overall revenue, respectively. The Dyson Group of Companies has been our customer for the past 12 years. We expect that Dyson Group of Companies will continue to contribute significantly to our Group's revenue in the future. Our Group has not historically entered into and presently does not have any long-term contract with Dyson Group of Companies or any of our other customers.

The absence of long-term contract is an industry practice where customers would purchase our range of machines by way of purchase orders on project-to-project basis or as-needed basis. The size of the orders received from our customers varies, depending on their respective production plans and requirements as well as level of investments, which in turn are driven by the introduction of new products to the market. Any adverse changes in consumer preferences and tastes may affect the development of various products manufactured or introduced by our major customers, which in turn may affect demand for our range of specialised automation machines, as our customers may scale back their overall production plans and investment levels.

Consequently, if we are unable to increase our production capacity in a timely manner to meet unexpected large increase in demand or to fulfil new orders, we may suffer from the loss of sale, delayed delivery or incurred additional cost.

Any delay or decrease in the value of orders obtained from the Dyson Group of Companies could have an adverse effect on our business and financial performance. There is no assurance that the Dyson Group of Companies will continue to purchase our products and/or services in the future or that demand from them will be sustained at current levels in the future.

Furthermore, there is no assurance that we could diversify our portfolio of customers and reduce our reliance on the Dyson Group of Companies going forward. If our major customers are dissatisfied with the quality of our products and/or services and such dissatisfactions are not adequately addressed, our reputation could be adversely affected and our relationship with our major customers may deteriorate, which may subsequently impact our business relationship with them and potential customers. In such an event, our major customers may switch to other vendors/suppliers or reduce the purchase of our products and services. In addition, our business reputation may be damaged (either by word of mouth or publicly available information) resulting in potential customers not appointing us as their approved vendor/supplier for their manufacturing requirements. This may adversely affect our business and financial performance.

9. RISK FACTORS (cont'd)

9.1.2 We are dependent on our customers' production plans and level of investments

We do not have any long-term contractual agreements or maintain any order books. Instead, our Group is dependent on the issuance of purchase orders by our customers, who purchase our products on an as-needed basis. Our ability to continue to secure purchase orders from our customers are based on several factors including, but not limited to, the following:

- (a) the demand for our range of specialised automation machines, manufacturing hardware and software, which are dependent on the manufacturing requirements of our customers. Our products are capital in nature and hence are less frequently replaced. As such, we are dependent on our customers capital budget for expansion of new production lines or replacement of their existing machineries;
- (b) competitive pricing and timely delivery of our products;
- (c) changes in our customers' production plans and requirements, which were in turn is driven by their level of investments for the purchase of new specialised automation machines; and
- (d) continuing customer satisfaction with our products and services.

Any changes in our customers' production plans and requirements may result in a postponement or cancellation of purchase orders for our specialised automation machines. In addition, any delays, premature termination of confirmed orders, or decrease in the capital expenditure spending or value of purchase orders or the loss of any of these customers would adversely affect our future business operations and financial performance.

9.1.3 Machines defects and product liabilities

We are potentially exposed to the risk of product warranty and liability claims from our customers for manufacturing defects and product liability claims for losses or damages suffered as a result of manufacturing defects, design defects or defective warnings or instructions. The warranty replacement cost for our machines incurred by our Group during the financial years under review are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Warranty replacement cost (RM'000)	26	28	29	30
No. of machines	67	95	93	84

For the past 4 FYEs 2015 to FYE 2018, our warranty claims above were less than 1.0% of our Group's revenue. Any substantial claims relating to our machines could have an adverse impact on our business and financial performance.

We generally provide our customers with a warranty period of 1 year for specialised automation machines, and we also provide on-site maintenance and technical support for ad-hoc problems, if required. Our warranty also includes replacement of defective parts and components free of charge. In addition, some of the purchase orders from our major customers include warranties that our products will be free of defects upon completion and will meet specific performance requirements and to the extent that our products do not, or are deemed not to, satisfy such warranties, we may be required to indemnify or compensate our customers for any damages or losses as well as consequential damage if our products or services are defective.

9. RISK FACTORS (cont'd)

Any defects or errors in our products and services could result in adverse customer reaction towards us. These include negative publicity, additional expenditure to correct problems and claims against us. There is no assurance that we will not face such claims in the future. We have not purchased insurance coverage for product liability and we are thus not covered or compensated by insurance in respect of losses, claims and liabilities arising from or in connection with product liability. Should these events occur, our financial performance could be adversely affected.

An adverse reputation or negative perception regarding the quality of our products and services or our Group in general, could also result in substantially lower demand for our products and services. This would in turn have an adverse effect on our business and financial performance.

9.1.4 Exposure to highly confidential information

We are constantly exposed to highly confidential information relating to our customer's products. Such confidential information may include, but not limited to, proprietary technical know-how which is highly sensitive commercially. Our Group is obligated to ensure that these confidential information is not disclosed and revealed to any unauthorised parties.

There can be no assurance that our Group will not be vulnerable or susceptible to external security threats to our physical information infrastructure as well as cyber security attacks on our servers where the confidential information is stored. This may include malware attack, hacking, data theft, break-ins, internal security breaches and subsequent leakage of these confidential information to unauthorised third parties. The occurrence of such events may expose our Group to complaints, claims, termination of business relationship as well as legal actions initiated by our customers for breach of confidentiality, including but not limited to being sued for damages arising from such breach. The occurrences of these circumstances may adversely affect our Group's reputation, business and financial performance.

In addition, we have developed our proprietary application software for our specialised automation machines and DMS. The source code for the proprietary application software is highly sensitive commercially as they contain information on our software architecture. There can be no assurance that we will not be vulnerable to theft or unauthorised access/use to the proprietary application software which may result in our proprietary information being leaked to our competitors. The occurrence of such circumstances may adversely affect our business and financial performances.

9.1.5 We are dependent on our Directors, key management personnel, project managers and engineers for continued success and the loss of their continued services may affect our business

Our future prospects are, to a significant extent, attributable to the abilities, skills, experience, competency and continuous effort of our Managing Director, Executive Directors, key management personnel, project managers and engineers. Having a team of experienced management personnel, project managers and engineers is critical in guiding and implementing our Group's strategies and to ensure our Group maintains and improves our technical capabilities.

As our Group is operating in a fast-changing technology industry and the management and operation of the business require the employment of highly skilled employees, we are highly dependent on their technical know-how in the course of our business. Further, due to the close proximity of Johor Bahru and Singapore, we face competition to seek highly skilled employees and also face the risk that our engineers and technicians may seek better career opportunities in Singapore for higher income.

9. RISK FACTORS (cont'd)

As such, our ability to maintain high quality products and services is dependent on their continuous service and our ability to attract, train, motivate and retain our skilled workforce. The competition for competent and skilled personnel in our industry is intense and there might be no assurance that we will be able to retain and attract the necessary key personnel, project managers and engineers who would be instrumental to the future success of our Group.

The loss of any of our key management personnel, project managers and engineers simultaneously or within a short time may create an unfavourable or material impact on our Group's operations, if there is lack of succession planning or timely replacement or an inability to attract and retain personnel.

9.1.6 Risks arising from delays in product delivery, order cancellations and product complexities

Our Group is subject to the following risks:

- (a) customers may resort to cancellations, postponement or scaling down of future orders due to various reasons which include changes in market conditions, key decision maker, commercial viability of their products and the economic environment in which they operate;
- (b) the distribution of manufacturing hardware and software segment contributed approximately 18.2%, 18.3%, 13.9% and 12.4% to our Group's total revenue for FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively. In the event that we cease to become the distributor of Minitab, Digi and Universal Robots, our Group's financial results will be adversely affected as we will lose part of the revenue streams contributed from the distribution of manufacturing automation hardware and software, which comprises mainly Minitab's statistical analysis software, Digi's wireless communication devices and Universal Robots' robotic arms. In addition, as the distributorship/representative agreements entered into by our Group with Minitab, Digi. and Universal Robots are governed by foreign laws (namely Laws of Commonwealth of Pennsylvania, USA, Laws of the State of Minnesota, USA and Laws of Denmark, respectively), we may incur additional costs (such as legal cost incurred in hiring foreign legal counsel and additional expenses to rectify any breaches of the distributorship/representative agreements) in the event of a legal dispute on the terms of these distributorship/representative agreements;
- (c) the various software used by our Group for the manufacturing automation business (such as programming application software, statistical analysis software and manufacturing software) being made unavailable or discontinued by our suppliers. This may result in our Group incurring high cost for sourcing alternative software or use of incompatible/outdated software for our machines;
- (d) the under-estimation of machine complexities (such as insufficient design timeframe and unforeseen integration complexity) may delay the commencement of the commercial production which in turn may delay the delivery of our machines to customers. Further, unanticipated changes in machine design or specifications may cause us to incur higher costs/delays; and
- (e) our production may be affected by disruptions in our supply chain due to amongst others, shortages in raw materials and interruptions caused by various factors, such as occurrences of disasters where our major supplier's facilities are located or delay in shipment of raw materials stock from our suppliers.

Such risk may materially and adversely affect our business and financial performance.

9. RISK FACTORS (cont'd)

9.1.7 We may not be able to effectively manage our growth or successfully implement our business plans and business strategies

We plan to enhance our market presence through further expansion of our local and overseas businesses. In order to successfully implement our expansion plans, it is imperative that our Group remains competitive, and to do so, we need to expand our manufacturing capability, intensify our D&D activities and increase our sales and support activities. In addition, we also plan to enhance our market presence in the manufacturing automation industry through the development of new products (such as the standard modules, i-MES and i-FCT). Please refer to Section 7.12 for further details of our business plans and business strategies.

The execution of our business plans and business strategies is subject to additional capital expenditures, human resources constraints and increase in overall production costs. Failure to commercialise such new products may result in our financial performance being adversely affected. Furthermore, our future plans may be influenced by factors beyond our control, such as changes in general market condition, economic and political environment in Malaysia as well as regionally.

9.1.8 We may not be able to renew or maintain the pioneer status granted

i-Stone Systems is entitled to pioneer status incentives under the PIA which grants a tax exemption of up to 70% of the statutory income for a period five (5) years (i.e. from 1 January 2017 to 31 December 2021). i-Stone Solutions was entitled to pioneer status incentives under the PIA which grants a tax exemption of up to 100% of the statutory income for a period five (5) years (i.e. from 5 December 2013 to 4 December 2018).

During the financial years under review, we enjoyed the following tax savings from our pioneer status as follows:

(a) i-Stone Solutions

	<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>
Statutory taxable income	4,502	3,784	6,705	8,288
Tax amount paid/declared	2	1	~	7
Tax savings	1,100	882	1,577	1,979
Percentage of tax savings against our Group's PAT (%)	26.9	18.7	18.4	17.3

(b) i-Stone Systems

	<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>
Statutory taxable income	-	1,057	2,246	1,030
Tax amount paid/declared	-	229	182	128
Tax savings	-	-	327	89
Percentage of tax savings against our Group's PAT (%)	-	-	3.8	0.8

Note:

~ Less than RM1,000

9. RISK FACTORS (cont'd)

In light of Malaysia's recent commitment to implement and adhere to international taxation standards, particularly Base Erosion and Profit Shifting Action Plan ("BEPS Action Plan") introduced by the Organisation for Economic Co-operation and Development and Group of 20 countries, the Government of Malaysia will be reviewing all relevant legislation and guidelines relating to relevant tax incentives of Malaysia so as to be consistent with the minimum standards under the aforementioned BEPS Action Plan.

As such, starting from 1 July 2018, MDeC will no longer be granting new approvals for applications for MSC status, including applications for extension of income tax exemption period or applications to add new MSC qualifying activities. Companies that were previously granted approval for tax incentives prior to 17 October 2017 and are currently enjoying existing tax incentives will have the option to continue receiving the same treatment until 30 June 2021 or be subject to the new legislation and guidelines once the same come into effect.

The aforementioned changes that are taking place will affect the extension of pioneer status of i-Stone Solutions (which expired on 4 December 2018), as any extension application will only be considered once the new legislation and guidelines come into force. As at the LPD, MDeC has yet to issue the new criteria / conditions enabling the processing of new approvals for MSC Malaysia status, including applications for extension of income tax exemption period or applications to add new MSC Malaysia Qualifying Activities.

In view of the above developments, the expiry and revocation of i-Stone System's pioneer status and the non-renewal of i-Stone Solutions' pioneer status will directly affect our financial performance, as they will be subject to the prevailing tax rate. The non-renewal of the pioneer status for i-Stone Solutions will directly affect our financial performance, as these companies will be subject to the prevailing tax rate of 24.0% for the year of assessment 2019.

9.1.9 Exposure to fluctuation in the foreign currency exchange rates

A proportion of our sales to our customers are transacted in foreign currencies, namely in USD and SGD, details of which are as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	29,789	67.5	31,726	73.6	37,393	61.9	51,483	76.2
USD	5,067	11.5	3,320	7.7	13,817	22.9	11,008	16.3
SGD	9,268	21.0	8,081	18.7	9,171	15.2	5,100	7.5
Total	44,124	100.0	43,127	100.0	60,381	100.0	67,591	100.0

Our purchases are mainly denominated in RM, USD and SGD in the following percentages, as tabulated below:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	11,043	41.4	11,672	46.7	17,613	52.5	14,684	43.9
USD	7,576	28.4	6,632	26.5	6,121	18.3	11,300	33.8
SGD	7,860	29.5	6,544	26.2	9,359	27.9	5,370	16.0
Others ⁽¹⁾	210	0.7	138	0.6	427	1.3	2,124	6.3
Total	26,689	100.0	24,986	100.0	33,520	100.0	33,478	100.0

9. RISK FACTORS (cont'd)

Note:

- (1) Other currencies include Renminbi, Pounds Sterling, Australian Dollars, Taiwanese Dollar, Japanese Yen and Euro

As a result, we are exposed to fluctuations to USD and SGD, and any adverse movements in the foreign exchange markets may have an adverse impact on our business performance, financial position and operating results. If we pass on our foreign exchange risks by increasing the selling price of our products and services to maintain our profit margin, our products and services may become less competitive in the market and this in turn may affect our sales volume.

Further, the financial results of i-Stone International and Bizit Systems Singapore are denominated in SGD. As such, any future significant depreciation in SGD against RM may have a material negative impact on our Group's combined/consolidated financial statements which is reported in RM, as we are based in Malaysia.

At present, we do not use any financial instruments to hedge our exposure against transactions in foreign currencies. There can be no assurance that any future foreign currency exchange rates fluctuation will not have a material adverse effect on the business and financial performance of our Group.

9.1.10 Our profitability levels may be affected due to rising operating costs

Our Group's overall profitability levels may be affected due to increase in our overall operating costs including, but not limited to, the following:

- (a) non-renewal of the pioneer status for i-Stone Solutions (which expired on 4 December 2018) which will result in i-Stone Solutions be subject to the prevailing tax rate of 24.0%, thus increasing our overall taxation expenses;
- (b) with the expansion in size and scale of operations at the New Factory, we may incur higher utilities costs, quit rent as well as higher maintenance costs (such as security, cleaning, insurance and facilities costs). The estimated increase in the monthly operating cost by approximately RM40,000 per month;
- (c) higher warranty cost that we may incur in line with the increase in the volume of new specialised automation machines to be supplied by our Group; and
- (d) higher development cost for the development and manufacturing of new machines, equipment and software as part of future expansion plans.

In such an event, our Group may record lower profitability levels in the event that we are unable to increase our sales volume and price of our products and services to offset such cost increases. Thus, we cannot assure that we can reduce our overall operating costs moving forward.

9. RISK FACTORS (cont'd)

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 Change in technology evolution and advancement

The rapid development of technology prompts swift changes in customers' demand, which are characterised by rapid technological developments, evolving industry standards, swift changes in customer requirements and frequent new product introductions and enhancements. Our products and solutions, including automated equipment and automated manufacturing solutions, may potentially be rendered obsolete due to the rapid evolution and emergence of new and/or substitute technology and/or products.

There can be no assurance that our Group will be successful in adapting to advances in technology, evolving standards or in addressing changing customer needs on a timely and effective basis.

We cannot guarantee that we will continue to generate attractive products and solutions for our customers in terms of price and efficiency, or that we will be able to address the on-going technological evolution in a timely manner or at all. Our ability to grow is also subject to the risk of future disruptive technologies that may unexpectedly displace the current technology (in terms of design, functionalities, efficiency and durability), which could adversely affect the competitiveness of our Group if we are unable to respond to these new technologies accordingly.

There is no assurance that our D&D efforts to develop new products and solutions as well as enhancing our proprietary products, and manufacturing process can be fully or partially recovered through the subsequent sales of newly developed products and solutions. If we are unable to develop, design or acquire the technology/products and solutions that addresses market needs in a timely manner, our business and financial performance may be adversely affected.

9.2.2 Competition from other industry players

Notwithstanding our competitive strengths, we continue to face competition from existing and prospective competitors which may be capable of offering similar products and solutions. We also face competition from many international and local competitors of various business scales. Some of our competitors are more established and are of larger scale. Other competitors are of smaller scale than us but may be able to offer more specialised products and/or solutions. Technology, product quality, pricing, proximity to customers, services and breadth of products and/or solutions offered are the key areas of competition in our business. Additionally, consolidation of market players within the specialised machinery and equipment industry may increase competition among existing players.

There can be no assurance that any changes in the competitive environment would not have any material and adverse impact on our business and financial performance.

9.3 RISK RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 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 can be sustained. Our IPO Price was determined after taking into consideration a number of 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 the IPO Price will correspond to the price at which our Shares will be traded on the ACE Market upon or subsequent to our Listing or

9. RISK FACTORS (cont'd)

that an active market for our Shares will develop and continue upon or subsequent to our Listing.

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

9.3.2 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.

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 fourteen (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.

In the event 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 the approval of shareholders by special resolution in a general meeting, with sanction of High Court of Malaya or with notice to be sent to the Director General of the Inland Revenue Board and Registrar of Companies within seven (7) days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act. There can be no assurance that such monies can be recovered within a short period of time.

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

The trading price and volume of our Shares could be subject 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 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 Shares.

9. RISK FACTORS (cont'd)

9.3.4 The interests of our Promoters who control our Company may not be aligned with the interests of our other shareholders

As disclosed in Section 5.1.1 of this Prospectus, our Promoters will collectively hold in aggregate approximately 60.2% of our enlarged issued share capital upon Listing.

As a result, they have, in the foreseeable future, effective control over the business direction and management of our Group including the election of directors, and the timing and payment of dividends as well as having voting control over our Group. As such, our Promoters will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting either by law and/or by the relevant guidelines or regulations.

Therefore, there is a risk of whether the interest of our Promoters are aligned with those of our other shareholders.

9.3.5 Dividend payment

Our Company, an investment holding company, derives its income mainly from dividends received from our subsidiaries. Hence, our ability to pay future dividends and our ability to sustain our dividend policy in the future are largely dependent on the performance of our subsidiaries, which includes the following factors:

- (a) the non-renewal of the pioneer status for i-Stone Solutions will directly affect our financial performance, as it will be subject to the prevailing tax rate of 24.0%; and
- (b) higher operating costs incurred due to the relocation of our operations at the New Factory.

In determining the size of any dividend recommendation, we will also take into consideration a number of factors, including but not limited to our financial performance, cash flow requirements, debt servicing and financing commitments, availability of distributable reserves and tax-exempt profits/tax credits, future expansion plans, loan covenants and compliance with regulatory requirements.

9.4 OTHER RISKS

9.4.1 Our future fund raising exercise may result in dilution of your shareholdings

Our capital requirements are dependent on, amongst others, our business, the availability of our resources for attracting, maintaining and enlarging our client base and the need to maintain and expand our products and solutions 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 investments by shareholders.

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

Certain statements made 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

9. RISK FACTORS (cont'd)

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.

[The rest of this page is intentionally left blank]

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS**10.1 RELATED PARTY TRANSACTIONS**

Save as disclosed below and the transactions under the Internal Restructuring (as disclosed under Section 6.3), for FYE 2015 to 2018, there were no transactions, 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 which are material to our Group.

(a) With companies which were previously subsidiaries and/or associate companies of our Group prior to our Internal Restructuring

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Income / (Expenses)										
					FYE 2015 RM'000	%	FYE 2016 RM'000	%	FYE 2017 RM'000	%	FYE 2018 RM'000	%	Up to the LPD RM'000	%	
Top One Technology (vendor)	Chan Kok San	Chan Kok San and Chin Chung Lek are our Promoters and substantial shareholders	i-Stone Systems Technology (purchasers)	Purchase of components (such as precision parts and electrical components) by i-Stone Systems and i-Stone Technology from Top One Technology	-	-	(92)	(2)0.3	(307)	(2)0.8	(61)	(2)0.3	-	-	
	Chin Chung Lek	Chin Chung Lek and Chan Kok San were previously the Directors of Top One Technology													
		Chin Chung Lek and i-Stone Technology were previously the substantial shareholders of Top One Technology													

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Income / (Expenses)									
					FYE 2015 RM'000	%	FYE 2016 RM'000	%	FYE 2017 RM'000	%	FYE 2018 RM'000	%	Up to the LPD RM'000	%
P.A. Engineering (vendor)	Chan Kok San Tee Sook Sing	Chan Kok San and Tee Sook Sing are our Directors, Promoters and substantial shareholders	i-Stone Systems Technology (purchasers)	Purchases of components (such as precision parts and electrical components) by i-Stone Systems and i-Stone Technology from P.A. Engineering	-	-	(279)	(⁽²⁾ 0.9	(95)	(⁽²⁾ 0.2	(62)	(⁽²⁾ 0.2	-	-
	Seah Mee Lai													
		Seah Mee Lai is currently a Director of P.A. Metal and was previously a Director of P.A. Engineering												
		Tee Sook Sing and Chan Kok San were previously Directors of P.A. Engineering												
One Galaxy Capital (recipient of service and issuer of preference shares)	Chan Kok San Chin Lek Tee Sing Hing Sern	Chan Kok San, Chin Chung Lek and Tee Sook Sing are our Directors, Promoters and substantial shareholders Hing Fook Sern is a shareholder of our	i-Stone International (service provider)	Provision of technical support services by i-Stone International to One Galaxy Capital	-	-	-	-	133	N/A	-	-	-	-

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Income / (Expenses)						Up to the LPD		
					FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2015	FYE 2016		FYE 2017	FYE 2018
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	
Chan Kong	Sai Kong	Company as well as Director of Bizit Systems Singapore and Bizit Systems Malaysia	i-Stone Bizit Systems Singapore (subscribers of preference shares in One Galaxy Capital)	Subscription of preference shares by i-Stone Technology and Bizit Systems Singapore in One Galaxy Capital	-	-	-	-	1,500	N/A	-	-	
		Chan Sai Kong is the Sales Manager of i-Stone International and our Company's substantial shareholder.											
		Chan Kok San was previously a Director of One Galaxy Capital											
i-Stone Engineering (vendors)	Tee Sook Sing Chan Kok San Chin Chung Lek	Chan Kok San, Chin Chung Lek and Tee Sook Sing are Directors, Promoters and substantial shareholders of our Company	i-Stone Technology Systems International (purchasers)	Purchase of precision parts by i-Stone Technology, i-Stone Systems and i-Stone International from i-Stone Engineering ⁽¹⁾	(3,755)	⁽²⁾ 12.4	(3,088)	⁽²⁾ 10.3	(4,153)	⁽²⁾ 10.2	(3)	(3)	(3)

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Income / (Expenses)					
					FYE 2015 RM'000	%	FYE 2016 RM'000	%	FYE 2017 RM'000	%

i-Stone Engineering was previously an associate company of i-Stone Technology (which has since become our subsidiary in January 2018)

Notes:-

- N/A Not applicable as such related party transactions do not contribute to the revenue or cost of sales of our Group. Such related party transactions are normally recorded as other income/expenses/balance sheet items of our Group
- (1) During the financial years under review, i-Stone Technology had purchased raw materials from i-Stone Engineering, which was then an associate company of i-Stone Technology
 - (2) Calculated based on our Group's cost of sales for each of the respective financial years
 - (3) As i-Stone Engineering became our subsidiary from 1 January 2018, any transactions entered into between our Group and i-Stone Engineering is no longer deemed a related party transaction

Save for the transactions entered into between our Group and i-Stone Engineering, which became our subsidiary on 1 January 2018, our Group shall no longer enter into any related party transactions with the related parties above moving forward.

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS**(b) Related parties outside our Group**

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Value of transactions				Up to the LPD					
					FYE 2015 RM'000	%	FYE 2016 RM'000	%		FYE 2017 RM'000	%	FYE 2018 RM'000	%	
Turnitin (owner of factory unit in Woodlands, Singapore and vendor of equity interests in i-Stone International and Bizit Systems Singapore)	Tee Sook Sing Chan Kok San Chin Chung Lek Chun Sing Chung Lek Chan Sai Kong	Chan Kok San, Chin Chung Lek and Tee Sook Sing are our Directors, Promoters and substantial shareholders	i-Stone International (tenant)	Rental expenses of a factory unit by i-Stone International from Turnitin in Singapore	(106)	N/A	(112)	N/A	(116)	N/A	(110)	N/A	(36)	N/A
	Chan Sai Kong	Chan Sai Kong is the Sales Manager of i-Stone International and our Group's substantial shareholder	i-Stone Technology (purchaser)	Acquisition of i-Stone International ⁽⁷⁾	-	-	-	-	-	-	-	-	534	N/A
	Chan Sai Kong	Chan Sai Kong is the Sales Manager of i-Stone International and our Group's substantial shareholder	i-Stone Technology (purchaser)	Acquisition of Bizit Systems Singapore ⁽⁷⁾	-	-	-	-	-	-	-	-	2,033	N/A
	Chan Kok San, Chin Chung Lek and Tee Sook Sing	Chan Kok San, Chin Chung Lek and Tee Sook Sing were previously Directors and currently its shareholders, whilst Chan Sai Kong is currently its Director and shareholder												

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Value of transactions						Up to the LPD	
					FYE 2015 RM'000	%	FYE 2016 RM'000	%	FYE 2017 RM'000	%		FYE 2018 RM'000
i-Stone Electronics Pte Ltd	Tee Sook Sing	Chan Kok San, Tee Sook Sing and Chin Chung Lek are our Directors, Promoters and substantial shareholders	i-Stone Technology Systems International Bizit Systems Singapore (purchasers)	Purchases of components (such as precision parts and electrical components) by i-Stone Technology, i-Stone Systems, i-Stone International and Bizit Systems Singapore from i-Stone Electronics Pte Ltd	(1,696)	(4)5.6	(698)	(4)2.3	(208)	(4)0.5	-	-
(vendor and purchasers of components)	Chin Chung Lek	Chin Chung Lek are our Directors, Promoters and substantial shareholders										
		i-Stone Electronics Pte Ltd was a wholly-owned subsidiary of Turnitin										
		Chan Kok San, Tee Sook Sing and Chin Chung Lek were previously the Directors of i-Stone Electronics Pte Ltd										
			i-Stone Technology	Sales of components (such as precision parts and electrical components) to i-Stone Electronics Pte Ltd	412	(3)0.9	5	#	11	#	-	-
			i-Stone International Bizit Systems Singapore i-Stone Solutions (vendors)									

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Value of transactions						Up to the LPD		
					FYE 2015		FYE 2016		FYE 2017			FYE 2018	
					RM'000	%	RM'000	%	RM'000	%		RM'000	%
Tee Sook Sing - (vendor and purchaser)	Tee Sook Sing is our Company's Promoter, Managing Director and substantial shareholder	i-Stone Technology (vendor)	Disposal of One Gourmet ⁽⁶⁾	-	-	-	-	-	-	~	N/A	-	-
Chan Kok San - (vendor and purchaser)	Chan Kok San is our Company's Promoter, Executive Director and substantial shareholder	i-Stone Technology (vendor)	Sale of properties ⁽⁵⁾	-	-	-	-	-	-	(4,680)	N/A	-	-
		i-Stone Technology (vendor)	Disposal of One Galaxy Equity ⁽⁶⁾	-	-	-	-	-	-	(160)	N/A	-	-
		i-Stone Technology (vendor)	Disposal of One Gourmet ⁽⁶⁾	-	-	-	-	-	-	~	N/A	-	-
		i-Stone Technology (vendor)	Disposal of Venture Primus ⁽⁶⁾	-	-	-	-	-	-	~	N/A	-	-
		i-Stone (purchaser)	Acquisition of i-Stone Technology ⁽⁸⁾	-	-	-	-	-	-	-	-	5,478	N/A
Chin Chung Lek - (vendor and purchaser)	Chin Chung Lek is our Company's Promoter, Executive Director and substantial shareholder	i-Stone Technology (vendor)	Sale of properties ⁽⁵⁾	-	-	-	-	-	-	(1,780)	N/A	-	-
		i-Stone Technology (vendor)	Disposal of One Gourmet ⁽⁶⁾	-	-	-	-	-	-	~	N/A	-	-
		i-Stone (purchaser)	Acquisition of i-Stone Technology ⁽⁸⁾	-	-	-	-	-	-	-	-	1,992	N/A
		i-Stone Technology (purchaser)	Acquisition of Bizit Systems Malaysia ⁽⁷⁾	-	-	-	-	-	-	-	-	10	N/A

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

Related parties	Interested persons	Nature of relationship	Companies within our Group	Nature of transactions	Value of transactions						Up to the LPD			
					FYE 2015		FYE 2016		FYE 2017		FYE 2018		RM'000	%
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Chan Sai Kong ⁽²⁾ (vendor and purchaser)	-	Chan Sai Kong is our substantial shareholder	i-Stone Technology (vendor) i-Stone (purchaser)	Sale of properties ⁽⁵⁾ Acquisition of i-Stone Technology ⁽⁸⁾	-	-	-	-	-	-	(1,300)	N/A	-	-
			i-Stone Technology (purchaser)	Acquisition of Bizit Systems Malaysia ⁽⁷⁾	-	-	-	-	-	-	-	-	10	N/A
			i-Stone Technology (vendor)	Disposal of One Gourmet ⁽⁶⁾	-	-	-	-	-	-	~	N/A	-	-
Seah Mee Lai (vendor)	-	Seah Mee Lai is a Director of P.A. Metal and our shareholder	i-Stone (purchaser) i-Stone Technology (purchaser)	Acquisition of i-Stone Technology ⁽⁸⁾ Acquisition of P.A. Metal	-	-	-	-	-	-	-	-	117	N/A
Peck Yok Kee (vendor)	-	Peck Yok Kee is a Director of P.A. Metal and our Company's shareholder	i-Stone Technology (purchaser) i-Stone (purchaser)	Acquisition of P.A. Metal ⁽⁷⁾ Acquisition of i-Stone Technology ⁽⁸⁾	-	-	-	-	-	-	-	-	117	N/A
Hing Fook Sern (vendor)	-	Hing Fook Sern is the Director of Bizit Systems Malaysia and Bizit Systems Singapore as well as our shareholder	i-Stone Technology Bizit Systems, Malaysia, Bizit Systems Singapore (purchaser)	Acquisition of Bizit Systems Malaysia ⁽⁷⁾ Acquisition of Bizit Systems Singapore ⁽⁷⁾ Acquisition of i-Stone Technology ⁽⁸⁾	-	-	-	-	-	-	-	-	31	N/A
					-	-	-	-	-	-	-	-	226	N/A
					-	-	-	-	-	-	-	-	257	N/A

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)**Notes:-**

- # Less than 0.01%
- ~ Less than RM1,000
- N/A Not applicable as such related party transactions do not contribute to the revenue or cost of sales of our Group. Such related party transactions are normally recorded as other income/expenses/balance sheet items of our Group
- (1) During FYE 2015, FYE 2016 and FYE 2017, our Group had purchased raw materials from i-Stone Engineering, which is a then associate company of i-Stone Technology
 - (2) Chan Sai Kong was previously a Director of i-Stone International during FYE 2018 and is currently our substantial shareholder
 - (3) Calculated based on our Group's revenue for each of the respective financial years
 - (4) Calculated based on our Group's cost of sales for each of the respective financial years
 - (5) These properties are non-core properties that are not relevant to the operations of our Group or are no longer in use since we have centralised our entire manufacturing operations in the New Factory. Our Directors as well as our Audit and Risk Management Committee are of the view that the disposals of these non-core properties were conducted on an arms' length basis after taking into consideration the market value as appraised by the respective valuers of each properties
 - (6) The reporting period for these transactions were made based on the completion date. The Disposal of One Gourmet, Disposal of One Galaxy Equity and Disposal of Venture Primus was completed on 15 May 2018, 5 July 2018 and 20 July 2018, respectively
 - (7) The reporting period for these transactions were made based on the completion date and the consideration was satisfied via combination of cash and the issuance of new i-Stone Technology Shares, as highlighted under Section 6.3.3. The Acquisitions by i-Stone Technology was completed on 30 April 2019
 - (8) The reporting period for these transactions were made based on the completion date and the consideration was satisfied via the issuance of 977,181,200 new i-Stone Shares, as highlighted under Section 6.3.4. The Acquisition of i-Stone Technology was completed on 2 May 2019

Save for the transactions entered into between i-Stone International and Turnitin for the rental of a factory unit in Singapore, our Group shall no longer enter into any related party transactions with the related parties above moving forward. Our Directors as well as our Audit and Risk Management Committee are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our minority shareholders.

Moving forward, in order to ensure related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions

- (i) at least 2 other contemporaneous transactions with third parties for similar products and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

- (ii) in the event that quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek mandate from our shareholders to enter into any recurrent related party transactions at general meetings of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

(b) Non-recurrent related party transactions

- (i) Whether the terms of the non-recurrent related party transactions are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;
- (ii) The rationale for the Group to enter into the related party transaction and the nature of such transactions, if any; and
- (iii) Whether the non-recurrent related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

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

In the event there are any proposed non-recurrent related party transactions that require the prior approval of shareholders, the Directors, major shareholders and/ or persons connected with a Director or major shareholder, which have any interest, direct or indirect, in the proposed related-party transaction will abstain from voting in respect of their direct and/ or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed non-recurrent 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 non-recurrent related party transaction at the general meeting.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

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

For related party transaction that requires 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 transaction, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings.

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management 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 transactions entered into by us.

Our Audit and Risk Management Committee is of the opinion that the above measures are sufficient and applicable in evaluating all other related party transactions entered or to be entered by our Group. As such, the procedures involved in ensuring the recurrent related party transactions under Sections 10.1(a)(i) and (ii) above are not applicable for evaluating the other related party transactions.

10.2 OTHER TRANSACTIONS

(a) Transactions entered into 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 FYEs 2015 to 2018.

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

Save as disclosed below, there were no outstanding loans and guarantees made to/by us to or for the benefit of any related party or our Group for the past 4 FYEs 2015 to 2018:

(i) Guarantees

Our Directors, namely Tee Sook Sing, Chan Kok San and Chin Chung Lek as well as Chan Sai Kong (our substantial shareholder), have extended joint and several guarantees for the total amount of RM24.91 million based on the facilities limits for several banking facilities extended to i-Stone Technology and i-Stone Systems. These are credit facilities and term loans extended to i-Stone Systems and i-Stone Technology to mainly finance the purchase of the New Factory and

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

for working capital purposes. The breakdown of the term loan and credit facilities extended to i-Stone Technology and i-Stone Systems are as follows:

Borrower	Facilities	Lender	Tenure	Amount (RM'000)	Purposes
i-Stone Technology	Fixed Loan	Public Bank Berhad	20 years	406	To fund the acquisition of an office unit
i-Stone Systems	Commodity Murabahah Term Financing	Maybank Islamic Berhad	10 years	⁽¹⁾ 12,000	To fund the acquisition of the New Factory
	Overdraft facilities		-	1,000	Working capital
	Overdraft facilities		-	2,500	Working capital
	Overdraft and trade facilities	OCBC Bank Berhad	-	4,000	Working capital
	Hire purchase facilities	OCBC Al-Amin Bank Berhad	-	5,000	Acquisition of machineries

Note:

- (1) Pursuant to our Listing, we intend to utilise RM11.67 million or 29.9% of our proceeds from the Public Issue to fully repay our 10 year term loan facility of RM12.00 million from Maybank Islamic Berhad

In conjunction with the Listing, we will apply to the respective banks to discharge the said guarantees.

(ii) Advances to related parties

The following is our material related party balances for the past three 4 FYEs 2015 to 2018 and from 1 July 2018 up to the LPD:

	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2018 RM'000	As at LPD RM'000
Other receivables					
Amount due from related party companies					
• One Galaxy Equity	77	77	77	-	-
• Venture Primus	150	-	-	-	-
• POD Systems Sdn Bhd	40	40	-	-	-
• Top One Technology	-	147	65	-	-
• P.A. Engineering	-	128	-	-	-
• One Gourmet	-	-	1,000	-	-
• One Galaxy Systems	539	551	742	-	-
• Turnitin	-	-	287	-	-
Amount due from Director					
• Tee Sook Sing (for personal usage)	150	-	18	-	-
Total	956	943	2,189	-	-

These advances were made to the above related parties for working capital purposes as well as for personal usage by a Director and do not carry any interest. The advances are payable on demand and were classified as short term in nature. As at the LPD, there is no outstanding amount due from our related

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

parties. Going forward, our Group will not be providing any such advances (including loans and guarantees of any kind) to or for the benefit of the related parties.

(iii) Advances by related parties

The following material advances were made by the related parties to our Group for working capital purposes and were recorded as other payables for the past 4 FYEs 2015 to 2018 and as at the LPD:

	As at 31 December 2015	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Amount due to Directors					
• Seah Mee Lai	-	260	301	-	-
• Chan Kok San	80	131	290	-	-
Total	80	391	591	-	-

The above advances do not carry any interest, are payable on demand and were classified as short term in nature. As at the LPD, there is no outstanding amount due to related parties. These advances were not made on an arm's length basis as the abovementioned loans were interest free.

(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 13 February 2018 between i-Stone Technology and M&A Securities for the appointment of M&A Securities as Adviser, Placement Agent and Sponsor for our Listing; and
- (ii) Underwriting Agreement dated 15 May 2019 entered into between our Company and M&A Securities for the underwriting of 73,289,000 Issue Shares.

10.3 CONFLICT OF INTEREST

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

Moving forward, our Audit and Risk Management Committee will supervise any conflict of interest or potential conflict of interest situations and all Directors, substantial shareholders and key management personnel will disclose such conflict of interest situations, if any, to our Audit and Risk Management Committee for resolution as and when they arise.

In order to mitigate any possible conflict of interest situation, our Directors will declare to our Audit and Risk Management Committee and our Board of their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Audit and Risk Management Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

business. When a determination has been made that there is a conflict of interest of a Director, our Audit and Risk Management Committee will:

- (a) immediately inform our Board of the conflict of interest situation; and
- (b) make recommendations to our Board to direct the conflicted Director, substantial shareholder and/or key management personnel to:
 - (i) withdraw from all his/her executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director). After his withdrawal, he will remain in the said executive position to perform his executive role in matters that will not give rise to conflict of interest situation; and
 - (ii) abstain from all Board deliberation and involvements in matters where he has a conflict of interest situation. The conflicted Director shall also be abstain from any Board discussions relating to the recommendation of our Audit and Risk Management Committee and the conflicted Director shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director may however, be present at our meeting for the purposes of answering any questions. The conflicted Director shall also abstain from voting in respect of their direct/indirect shareholdings in our Company, if any, on the resolutions pertaining to the said transactions to be tabled at the general meeting to be convened

In circumstances where a Director is determined to have a significant, ongoing and irreconcilable conflict of interest with our Group, and where such conflict of interest significantly impedes the Director's ability to carry out his fiduciary duties and responsibilities to our Group, our Nomination Committee may determine that a resignation of the conflicted Director from our Board is appropriate and necessary.

- (c) to identify the persons connected to the conflicted Director (if any) and review any business dealings with such persons to establish whether a conflict of interest situation arises. Thereafter, the conflicted Director shall undertake to ensure that persons connected to him shall abstain from voting in respect of their direct/indirect shareholdings in our Company, if any, on the resolutions pertaining to the said transactions to be tabled at the general meeting to be convened. The Audit and Risk Management Committee shall also continue to monitor such business dealings to ensure that they are conducted on arms' length basis and based on terms that are fair to our Group.

In relation to (b) above, the conflicted Director shall abstain from any Board discussion relating to the recommendation of our Audit and Risk Management Committee and the conflicted Director shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of the Board, be present at the Board meeting for the purposes of answering any questions. Kindly refer to Section 5.2.3 for further details of the conflict of interest disclosures.

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS (cont'd)

10.4 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) Ilham Lee 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) Ecovis Malaysia PLT 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) Smith Zander 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.

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION**11.1 HISTORICAL FINANCIAL INFORMATION**

Our Company was incorporated on 22 March 2018 to facilitate our Listing. Our audited combined financial statements have been prepared in accordance with MFRS and IFRS for the FYE 2015 to FYE 2018. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

11.1.1 Historical combined financial information

The following table sets out a summary of our audited combined financial information for the FYE 2015 to FYE 2018. The following selected historical audited combined financial information should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 11.2 and the Accountants' Report set out in Section 12.

(a) Historical combined statements of profit or loss and other comprehensive income

	Audited			
	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Revenue	44,124	43,127	60,381	67,591
Less: Cost of sales	(30,288)	(29,981)	(40,769)	(45,364)
GP	13,836	13,146	19,612	22,227
Other income	494	756	625	2,678
Distribution, administrative and other expenses	(10,001)	(8,759)	(10,969)	(12,650)
Profit from operations	4,329	5,143	9,268	12,255
Finance costs	(217)	(235)	(277)	(283)
Share of results of an associate	339	202	399	-
PBT	4,451	5,110	9,390	11,972
Taxation	(359)	(402)	(840)	(502)
PAT for the year	4,092	4,708	8,550	11,470
Other comprehensive income, net of tax	517	96	(89)	9
Total comprehensive income for the year	4,609	4,801	8,461	11,479
PAT attributable to:				
- Owners of the Company	4,010	4,747	8,216	11,248
- Non-controlling interest	82	(40)	334	222
EBIT (RM'000) ⁽¹⁾	4,662	5,330	9,653	12,252
EBITDA (RM'000) ⁽¹⁾	5,177	5,999	10,323	13,111
GP margin (%)	31.4	30.5	32.5	32.9
PBT margin (%) ⁽²⁾	10.1	11.8	15.6	17.7
PAT margin (%) ⁽²⁾	9.3	10.9	14.2	17.0
Effective tax rate (%)	8.1	7.9	8.9	4.2
Net EPS (sen) ⁽³⁾	0.41	0.49	0.84	1.15
Diluted net EPS (sen) ⁽⁴⁾	0.33	0.39	0.67	0.92

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

- (1) EBIT and EBITDA are calculated as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
PAT	4,092	4,708	8,550	11,470
Less:				
Interest income	(6)	(15)	(14)	(3)
Add:				
Finance costs	217	235	277	283
Taxation	359	402	840	502
EBIT	4,662	5,330	9,653	12,252
Add:				
Depreciation and amortisation	515	669	670	859
EBITDA	5,177	5,999	10,323	13,111

- (2) PBT margin and PAT margin is calculated based on the respective PBT and PAT against our revenue
- (3) Calculated based on our PAT attributable to the owners of the Company and our issued and paid-up share capital of 977,181,200 Shares in issuance before our IPO
- (4) Calculated based on our PAT attributable to the owners of the Company and our enlarged issued and paid-up share capital of 1,221,477,200 Shares after our IPO

(b) Historical combined statements of financial position

	Audited			
	As at 31 December			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	2,968	4,658	4,205	23,088
Investment properties	7,455	6,925	6,538	290
Investment in associate companies	303	382	466	-
Other investments	632	280	1,780	-
Goodwill on consolidation	-	5	5	856
Total non-current assets	11,358	12,250	12,994	24,234
Current assets				
Assets held for sale	-	-	746	-
Inventories	1,784	1,329	3,355	8,679
Trade receivables	9,615	12,153	15,747	12,218
Other receivables	1,587	1,234	3,351	629
Current tax assets	-	-	-	530
Cash and bank balances	3,581	6,440	5,062	3,800
Total current assets	16,567	21,156	28,261	25,856
TOTAL ASSETS	27,925	33,406	41,255	50,090

11. FINANCIAL INFORMATION (cont'd)

	Audited			
	As at 31 December			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<u>EQUITY AND LIABILITIES</u>				
Share capital	1,496	1,496	1,500	1,500
Retained earnings	9,091	11,404	10,476	20,016
Reserves	2,847	2,935	1,372	580
	13,434	15,835	13,348	22,096
Non-controlling interest	131	362	690	1,284
Total equity	13,565	16,197	14,038	23,380
<u>Non-current liabilities</u>				
Hire purchase payables	229	167	177	274
Loans and borrowings	6,025	5,758	5,086	11,389
Deferred tax liabilities	3	18	18	477
Total non-current liabilities	6,257	5,943	5,281	12,140
<u>Current liabilities</u>				
Trade payables	5,137	5,518	5,960	7,166
Other payables	2,639	5,080	5,181	6,286
Dividends payable	-	-	9,520	-
Hire purchase payables	93	93	131	136
Loans and borrowings	190	346	655	982
Current tax liabilities	44	229	489	-
Total current liabilities	8,103	11,266	21,936	14,570
TOTAL LIABILITIES	14,360	17,209	27,217	26,710
TOTAL EQUITY AND LIABILITIES	27,925	33,406	41,255	50,090

(c) Historical audited combined statements of cash flows

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
<u>Cash flows from operating activities</u>				
PBT	4,451	5,110	9,390	11,972
Adjustments for:				
Bad debts written off	-	-	2	-
Depreciation of property, plant and equipment	403	538	565	821
Depreciation of investment properties	113	131	105	38
Fair value adjustment on other investments	20	-	-	-
Impairment loss on other investments	632	-	-	-
Impairment loss on goodwill	1,212	-	-	-
Interest expenses	217	235	277	283
Loss/(Gain) on disposal of other investments	19	(34)	-	(320)
Loss on disposal of investment property	-	-	-	31
Loss on disposal of property, plant and equipment	-	~	-	-
Share of results of an associate	(340)	(202)	(399)	-
Share based payment expenses	600	-	1,200	-

11. FINANCIAL INFORMATION (cont'd)

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment written off	-	2	1	230
Provision for warranty	-	-	-	24
Rental income	(117)	(276)	(314)	(109)
Unrealised loss on foreign exchange	89	88	4	54
Dividend income	(5)	(6)	(75)	-
Interest income	(6)	(15)	(14)	(3)
Unrealised gain on foreign exchange	(18)	(68)	-	(21)
Gain on disposal of property, plant and equipment	-	(124)	-	(1,094)
Gain on disposal of assets held for sale	-	-	-	(478)
Gain on remeasurement of associate stake	-	-	-	(533)
Operating profit before working capital changes	7,270	5,379	10,742	10,895
Decrease/(Increase) in working capital:				
Change in inventories	(1,200)	769	(2,026)	(5,324)
Change in trade and other receivables	(5,664)	(1,815)	(5,461)	7,533
Change in trade and other payables	2,799	1,772	343	1,944
Cash generated from operations	3,205	6,105	3,598	15,048
Interest paid	(217)	(235)	(277)	(212)
Interest received	6	15	14	3
Tax paid	(251)	(186)	(526)	(1,067)
Tax refunded	9	3	22	-
Net cash from operating activities	2,752	5,702	2,831	13,772
Cash flows from investing activities				
Acquisition of other investments	(1,002)	(261)	(~)	-
Acquisition of non-controlling interests	-	-	-	(23)
Acquisition of subsidiaries, net of cash acquired	-	(328)	-	(200)
Repayment from/(Advances to) to Directors	(150)	150	(18)	18
Dividend received	85	86	80	235
(Placement)/Withdrawal of pledged fixed deposit	(250)	195	380	(1,000)
Rental received	117	276	314	109
Proceeds from disposal of other investments	649	646	-	619
Proceeds from disposal of assets held for sale	-	-	-	1,224
Proceeds from disposal of property, plant and equipment	-	553	-	2,992
Proceeds from disposal of investment properties	-	-	-	5,146
Purchase of property, plant and equipment	(1,037)	(692)	(421)	(19,941)
Purchase of investment properties	(2,301)	(901)	-	-
(Purchase)/Redemption of preference shares in other investments	-	-	(1,499)	1,499
Net cash (used in)/from investing activities	(3,889)	(276)	(1,164)	(9,322)

11. FINANCIAL INFORMATION (cont'd)

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Proceeds from issuance of ordinary shares to non-controlling interest	-	15	-	-
Proceeds from issuance of ordinary shares	-	-	-	4
Proceeds from issuance of preference shares	~	-	10	-
Redemption of preferences shares	-	-	(5)	(5)
Advances from/(Repayment to) from directors	(66)	311	201	(588)
Dividend paid	(1,682)	(2,434)	(2,304)	(12,420)
Repayment of hire purchase payables	(108)	(121)	(112)	(242)
Repayment of short-term borrowings	(163)	-	-	-
Repayment of term loans	(215)	(336)	(364)	(5,440)
Drawdown of term loans	2,171	81	-	12,000
Net cash used in financing activities	(63)	(2,484)	(2,574)	(6,691)
Net increase/(decrease) in cash and cash equivalents	(1,200)	2,942	(907)	(2,241)
Cash and cash equivalent at the beginning of the financial year	3,832	3,006	6,059	5,061
Effect of exchange rate changes on the balance of cash held in foreign currencies	374	111	(91)	(20)
Cash and cash equivalent at the end of the financial year	3,006	6,059	5,061	2,800

11.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and segmental analysis of our audited results for the FYE 2015 to FYE 2018 should be read in conjunction with combined financial statements and the notes thereon as set out in the Accountants' Report included in Section 12 of this Prospectus.

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

We are principally involved in the manufacturing automation business segment, with a focus on specialised automation machines. Our core business activities are segmented as follows:

Manufacturing automation

- (i) design, manufacturing and modification of specialised automation machines used in automating manufacturing processes;
- (ii) provision of maintenance and technical support services for our specialised automation machines; and
- (iii) provision of DMS used for monitoring and controlling of manufacturing processes.

11. FINANCIAL INFORMATION (cont'd)

Complementary products and services

- (i) design and fabrication of metal frames, panels and precision parts; and
- (ii) distribution of manufacturing automation hardware and software.

Please refer to Section 7 for our Group's detailed business overview and Section 9 for the risk factors that may affect our Group's revenue and financial performance.

(b) Revenue recognition

Revenue is measured based on the consideration to which our Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when our Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(c) Finance costs

Our finance costs comprise mainly interest expenses incurred on borrowings undertaken to fund our working capital requirements and purchase of properties by our Group.

(d) Recent developments

Save for the subsequent events as disclosed in Note 8.31 of the Accountants Report set out in Section 12 of this Prospectus, there were no significant events subsequent to our Group's audited combined financial statements for FYE 2018.

(e) Exceptional and extraordinary items and audit qualification

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

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION (cont'd)**11.2.2 Review of operations****(a) Revenue****(i) Analysis of revenue by business segments**

The breakdown of our Group's revenue by business segments (net of inter-company eliminations/adjustments) is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing automation								
Design, manufacturing and modification of specialised automation machines	30,384	68.9	27,896	64.7	39,527	65.5	48,546	71.8
Maintenance and technical support services	4,722	10.7	5,489	12.7	7,611	12.6	6,498	9.6
Provision of DMS	950	2.2	1,131	2.6	2,296	3.8	1,461	2.2
Sub-total	36,056	81.8	34,516	80.0	49,434	81.9	56,505	83.6
Complementary products and services								
Design and fabrication of metal panels, frames and precision parts	-	-	717	1.7	2,527	4.2	2,711	4.0
Distribution of manufacturing automation hardware and software	8,068	18.2	7,894	18.3	8,420	13.9	8,375	12.4
Sub-total	8,068	18.2	8,611	20.0	10,947	18.1	11,086	16.4
Total	44,124	100.0	43,127	100.0	60,381	100.0	67,591	100.0

11. FINANCIAL INFORMATION (cont'd)

The breakdown of our Group's revenue contribution by subsidiaries (net of inter-company eliminations/adjustments) is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Revenue								
i-Stone Technology	30,058	68.1	14,029	32.5	172	0.3	43	0.1
i-Stone Systems	-	-	16,704	38.7	44,456	73.6	52,118	77.1
i-Stone Solutions	206	0.5	286	0.7	502	0.8	68	0.1
i-Stone International	5,792	13.1	3,497	8.1	4,303	7.1	4,276	6.3
P.A. Metal ⁽¹⁾	-	-	717	1.7	2,527	4.2	1,877	2.8
Bizit Systems Malaysia	2,776	6.3	2,673	6.2	3,813	6.3	3,700	5.5
Bizit Systems Singapore	5,292	12.0	5,221	12.1	4,608	7.7	4,675	6.9
i-Stone Engineering ⁽²⁾	-	-	-	-	-	-	834	1.2
Total	44,124	100.0	43,127	100.0	60,381	100.0	67,591	100.0

Notes:

- (1) We recognised revenue of RM0.72 million generated by P.A. Metal for the period of July to December 2016 after acquiring it in June 2016
- (2) We fully incorporated the financial results of i-Stone Engineering during FYE 2018 after i-Stone Engineering became our subsidiary effective 1 January 2018

i-Stone Systems has been the main contributor to our Group's overall revenue and contributed approximately 38.7%, 73.6% and 77.1% to our Group's total revenue for FYE 2016, FYE 2017 and FYE 2018, respectively. Prior to FYE 2016, i-Stone Technology was the main contributor to our Group's revenue, contributing 68.1% to our Group's revenue for FYE 2015. As part of our initiative to streamline our business activities, i-Stone Systems was incorporated in December 2015 to house the manufacturing, assembly and sales of our specialised automation machines. Since April 2016, all of our business activities related to the assembly and sales of specialised automation machines, which were previously undertaken by i-Stone Technology, have been transferred to i-Stone Systems. In this respect, the revenue generated by i-Stone Technology for FYE 2017 and FYE 2018 mainly relates to the trading of electrical components and spare parts for its manufacturing automation segment. i-Stone Technology has since changed its principal activities to investment holding on 14 May 2018 and has completely ceased its involvement in the trading of electrical components and spare parts for its manufacturing automation segment since September 2018.

11. FINANCIAL INFORMATION (cont'd)

The breakdown of our Group's PAT contribution by subsidiaries is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
PAT								
i-Stone Technology	1,833	24.5	4,605	52.3	8,765	50.2	3,725	28.3
i-Stone Systems	(3)	~	781	8.9	1,139	6.5	1,584	12.0
i-Stone International	945	12.6	(622)	(7.1)	(113)	(0.7)	(199)	(1.5)
i-Stone Solutions	3,876	51.8	3,491	39.7	6,140	35.2	7,888	59.9
P.A. Metal ⁽¹⁾	-	-	65	0.7	601	3.4	321	2.4
i-Stone Engineering ⁽²⁾	-	-	-	-	-	-	323	2.5
Bizit Systems Malaysia	(17)	(0.2)	3	~	20	0.1	88	0.7
Bizit Systems Singapore	844	11.3	481	5.5	909	5.2	711	5.4
i-Stone	-	-	-	-	-	-	(1,274)	(9.7)
Subtotal	7,478	100.0	8,804	100.0	17,461	100.0	13,167	100.0
Consolidation adjustment	⁽³⁾ (3,386)	-	⁽³⁾ (4,096)	-	⁽³⁾ (8,911)	-	⁽⁴⁾ (1,697)	-
Total	4,092	-	4,708	-	8,550	-	11,470	-

Notes:

~ Less than 0.1%

(1) P.A. Metal only became our subsidiary in FYE 2016

(2) During FYE 2015 to FYE 2017, i-Stone Engineering is classified as an associate company of i-Stone Technology

(3) The consolidation adjustments are mainly in relation to the elimination of inter-company transactions within our Group and share of associate results (namely i-Stone Engineering) during FYE 2015 to FYE 2017.

(4) During FYE 2018, the consolidation adjustments made are in relation to the elimination of inter-company transactions within our Group but did not include any share of financial results of i-Stone Engineering as it became a subsidiary of i-Stone Technology on 1 January 2018

11. FINANCIAL INFORMATION (cont'd)

During FYE 2017 and FYE 2018, i-Stone Technology had generated the following other income:

	Other income	
	FYE 2017 RM'000	FYE 2018 RM'000
Rental income from properties	407	236
Dividend income from subsidiaries/associate company	9,290	2,100
Interest income	5	~
Gain on disposal of subsidiaries and associates	-	358
Gain on disposal of property, plant, equipment, assets held for sale and investment properties	-	1,379
Deposit forfeited	53	-
Other income	-	12
Total	9,755	4,085

Note:

~ Less than RM1,000

i-Stone Technology generated PAT position of RM8.77 million and RM3.73 million for FYE 2017 and FYE 2018, respectively.

(ii) Analysis of revenue by geographical markets

The breakdown of our Group's revenue by geographical markets is as follows:

Manufacturing automation

	Audited							
	FYE 2015 RM'000	%	FYE 2016 RM'000	%	FYE 2017 RM'000	%	FYE 2018 RM'000	%
Malaysia	27,085	61.4	28,291	65.6	31,360	51.9	46,362	68.6
Singapore	5,839	13.2	4,653	10.8	5,663	9.4	4,602	6.8
Philippines	1,266	2.9	875	2.0	11,516	19.1	4,595	6.8
Taiwan	1,742	4.0	553	1.3	895	1.5	756	1.1
Others (UK, USA, India and Japan)	124	0.3	144	0.3	-	-	190	0.3
Total	36,056	81.8	34,516	80.0	49,434	81.9	56,505	83.6

11. FINANCIAL INFORMATION (cont'd)

By geographical location, Malaysia remains our Group's largest revenue contributor for our manufacturing automation segment, contributing between 51.9% and 68.6% of our total revenue during the financial years under review.

For FYE 2015, the analysis of revenue contribution by our major customers based on geographical segment for FYE 2015 is as follows:

Customers	Products sold	Malaysia		Singapore		Philippines		Taiwan		Total	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Dyson Group of Companies	Specialised automation machines, DMS		21,840	2,026	-	-	-	-	-	23,866	54.1
V.S. Group of Companies	Specialised automation machines	2,988	-	-	-	-	-	-	-	2,988	6.8
Wistron NeWeb Corporation	Specialised automation machines	-	-	-	-	-	1,365	-	-	1,365	3.1
Mitsumi Philippines, Inc.	Specialised automation machines	-	-	-	-	884	-	-	-	884	2.0
Total		24,828	2,026	2,026	884	1,365	1,365	884	1,365	29,103	66.0

For FYE 2016, the analysis of revenue contribution by our major customers based on geographical segment is as follows:

Customers	Products sold	Malaysia		Singapore		Philippines		Taiwan		Total	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Dyson Group of Companies	Specialised automation machines, DMS		24,579	1,300	657	-	-	-	-	26,536	61.5
V.S. Group of Companies	Specialised automation machines	1,389	-	-	-	-	-	-	-	1,389	3.2
Celestica Electronics (S) Pte Ltd	Specialised automation machines	-	-	1,031	-	-	-	-	-	1,031	2.4
Quantum Automation (Asia) Pte Ltd	Specialised automation machines	-	-	-	748	-	-	-	-	748	1.7
Total		25,968	3,079	3,079	657	657	657	748	748	29,704	68.8

For FYE 2017, the analysis of revenue contribution by our major customers based on geographical segment is as follows:

Customers	Products sold	Malaysia		Singapore		Philippines		Taiwan		Total	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Dyson Group of Companies	Specialised automation machines, DMS	26,912	2,799	10,420	-	-	-	-	-	40,131	66.5
V.S. Group of Companies	Specialised automation machines	1,267	-	-	-	-	-	-	-	1,267	2.1
Wistron NeWeb Corporation	Specialised automation machines	-	-	-	-	-	852	-	-	852	1.4
Mitsumi Philippines, Inc.	Specialised automation machines	-	-	-	-	769	-	-	-	769	1.3
Total		28,179	2,799	11,189	852	852	852	769	769	43,019	71.3

11. FINANCIAL INFORMATION (cont'd)

For FYE 2018, the analysis of revenue contribution by our major customers based on geographical segment is as follows:

Customers	Products sold	Malaysia		Singapore		Philippines		Total	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
Dyson Group of Companies	Specialised automation machines, DMS	40,011	65.5	845	19.1	3,400	65.5	44,256	65.5
V.S. Group of Companies	Specialised automation machines	1,569	2.3	-	-	-	-	1,569	2.3
ATA Industrial (M) Sdn Bhd	Specialised automation machines	2,047	3.0	-	-	-	-	2,047	3.0
Mitsumi Philippines, Inc.	Specialised automation machines	-	-	-	-	817	1.2	817	1.2
Quantum Automation (Asia) Pte Ltd	Specialised automation machines	-	-	775	1.1	-	-	775	1.1
Total		43,627		1,620		4,217		49,464	73.1

Our revenue derived from the Malaysian market contributed approximately 61.4%, 51.9% and 68.6% during FYE 2015, FYE 2016, FYE 2017 and FYE 2018. The revenue contribution from Malaysia were mainly derived from the sale of specialised automation machines and DMS to the Dyson Group of Companies, which has increased from RM21.84 million during FYE 2015 to RM40.01 million during FYE 2018.

Our revenue contribution from Singapore comprised 13.2%, 10.8%, 9.4% and 6.8% of our Group's total revenue for FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively. The majority of revenue from Singapore was contributed from the sale of specialised automation machines and DMS to Dyson Group of Companies. During FYE 2016, revenue contribution from Dyson Group of Companies decreased by RM0.73 million or 35.8%, which was offset by the contribution in sales of specialised automation machines to Celestica Electronics (S) Pte Ltd of RM1.03 million and Quantum Automation (Asia) Pte Ltd of RM0.75 million during FYE 2016.

The revenue contribution from the Philippines recorded an increase from 2.9% in FYE 2015 to 19.1% in FYE 2017 mainly due to the increase in sales of various new customised specialised automation machines (specialised test machines and specialised process machines) to Dyson Group of Companies and Mitsumi Philippines, Inc.'s manufacturing facilities in the Philippines during FYE 2017. However, revenue contribution from the Philippines decreased to 6.8% during FYE 2018 as we have completed a major portion of the sales of various new customised specialised automation machines (specialised test machines and specialised process machines) and provision of maintenance services to Dyson Group of Companies' manufacturing facilities in the Philippines during FYE 2017.

The revenue contribution from our customers located in Taiwan has been on the declining trend, from 4.0% during FYE 2015 to 1.1% during FYE 2018. The decline was due to decrease in orders for our specialised automation machines from Wistron NeWeb Corporation, our major customer in Taiwan. Revenue contribution from our customers from other geographical markets (namely US, UK, India and Japan) contributed 0.3% to our Group's revenue during the financial years under review.

11. FINANCIAL INFORMATION (cont'd)**Complementary products and services**

	FYE 2015		Audited FYE 2016		FYE 2017		Audited FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	4,053	9.2	4,052	9.4	5,941	9.8	6,484	9.6
Singapore	3,599	8.1	3,961	9.2	4,573	7.6	3,825	5.7
Indonesia	416	0.9	598	1.4	433	0.7	777	1.1
Total	8,068	18.2	8,611	20.0	10,947	18.1	11,086	16.4

By geographical location, Malaysia remains our Group's largest revenue contributor for our complementary products and during the financial years under review. For FYE 2015 to 2018, we generated between 9.2% and 9.8% of our revenue in Malaysia with the remaining mainly derived from Singapore and Indonesia. Our revenue is driven by the distribution of manufacturing automation hardware and software, whereby we have been appointed as the distributor/representative of Minitab's statistical analysis software, Digi's range of wireless telecommunication devices and related embedded modules in Malaysia, Singapore and Indonesia as well as distributor of Universal Robots' robotic arms in Malaysia.

In addition, we have been actively involved in the design and fabrication of metal panels, frames and precision parts in Malaysia and Singapore, since the acquisition of 60.0% equity interest of P.A. Metal in June 2016.

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION (cont'd)**(iii) Commentaries on revenue****Analysis of revenue by business segments****Comparison between FYE 2015 and FYE 2016****Manufacturing automation**

Revenue decreased by RM1.54 million or 4.3% from RM36.06 million during FYE 2015 to RM34.52 million during FYE 2016. This was mainly due to the decrease in orders by certain contract manufacturers and manufacturers which have reduced their orders by RM4.43 million, as they had purchased new specialised automation machines of RM6.20 million for their manufacturing facilities in Malaysia, Singapore, Philippines and Taiwan during FYE 2015 for the expansion of their manufacturing lines. In FYE 2016, these customers have reduced the pace of the manufacturing line expansion which resulted in the decrease in orders for our specialised automation machines.

However, the decrease in revenue generated by our Group was partly offset by the following:

- (a) increase in revenue generated from Dyson Group of Companies by RM2.67 million from RM23.87 million during FYE 2015 to RM26.54 million during FYE 2016 as we receive more orders to perform modification works for their existing specialised automation machines (which were previously manufactured by our Group). This provides them the flexibility to upgrade and re-adapt their existing machines to accommodate the changes in their manufacturing processes and requirements within a short time period, especially since these machines are still in good working conditions.
- (b) increase in revenue from the provision of maintenance and technical support services segment by RM0.77 million in line with the increase in the total number of specialised automation machines in use by our customers and maintained by us during FYE 2016.

Complementary products and services**Design and fabrication of metal panels, frames and precision parts**

i-Stone Technology acquired 60.0% equity interest of P.A. Metal at the end of June 2016, which contributed revenue of RM0.72 million or 1.7% to our Group's total revenue for FYE 2016 (contributed from June to December 2016, pursuant to the acquisition of 60.0% equity interest in P.A. Metal in June 2016). During FYE 2015, we were not involved in this business activity.

Distribution of manufacturing automation hardware and software

Revenue decreased by RM0.17 million or 2.2%, from RM8.07 million during FYE 2015 to RM7.89 million during FYE 2016 mainly due to decrease in revenue from the distribution of wireless communication devices by RM0.21 million or 5.4% during FYE 2016 due to competition from other brands of wireless communication devices and embedded systems.

11. FINANCIAL INFORMATION (cont'd)**Comparison between FYE 2016 and FYE 2017****Manufacturing automation**

Revenue increased by RM14.92 million or 43.2% from RM34.52 million during FYE 2016 to RM49.43 million during FYE 2017, mainly attributable to the following:

- (a) increase in revenue contribution from the design, manufacturing and modification of specialised automation machines business segment by RM11.63 million or 41.7% mainly due to the increase in sales of various new customised specialised automation machines (specialised test machines and specialised process machines) to Dyson Group of Companies' manufacturing facilities in the Philippines and Singapore during FYE 2017. This is in line with the increase in manufacturing activities for new range of household products by the Dyson Group of Companies;
- (b) revenue generated by the maintenance and technical support services segment increased by RM2.12 million or 38.7% during FYE 2017 in line with the total number of specialised automation machines in use by our customers and maintained by us; and
- (c) revenue generated from the provision of DMS (on a standalone basis) increased by RM1.17 million or 103.0%, as we had commissioned a total of 11 DMS at our customers' manufacturing facilities in Johor during FYE 2017, as compared to 6 DMS (on a standalone basis) commissioned during FYE 2016.

Complementary products and services**Design and fabrication of metal sheets, panels and precision parts**

Revenue increased by RM1.81 million or 252.4% from RM0.71 million during FYE 2016 to RM2.53 million during FYE 2017. However, as we only began consolidating the results of P.A. Metal from July 2016 (i.e. 6 months revenue during FYE 2016), the revenue contribution from P.A. Metal for FYE 2016 is RM0.72 million.

Revenue contribution from P.A. Metal increased by RM1.81 million or 252.4% to RM2.53 million during FYE 2017 due to the following:

- (a) higher orders received from a customer in Singapore for the fabrication of electrical switchboards enclosure by RM0.66 million; and
- (b) full year consolidation of the financial results of P.A. Metal during FYE 2017 as compared with the 6-months consolidation of financial results during FYE 2016.

Distribution of manufacturing automation hardware and software

Revenue increased by RM0.53 million or 6.7%, from RM7.89 million during FYE 2016 to RM8.42 million during FYE 2017. This was due to the increase in sales of the statistical analysis software (including trainings provided to participants for the usage of these statistical analysis software), which have further increased by RM1.70 million during FYE 2017. However, the said increase was off-set by the decrease in revenue from the distribution of wireless communication devices by RM1.17 million during FYE 2016 due to competition from other brands of wireless communication devices and embedded systems.

11. FINANCIAL INFORMATION (cont'd)

Comparison between FYE 2017 and FYE 2018**Manufacturing automation**

Revenue increased by RM7.07 million or 14.3% from RM49.43 million during FYE 2017 to RM56.51 million during FYE 2018. This was mainly due to the increase in revenue contribution from the design and manufacturing of specialised automation machines segment by RM9.02 million or 22.8% as a result of the increase in sales of various new customised specialised automation machines (specialised test machines and specialised process machines) to Dyson Group of Companies' manufacturing facilities mainly in Malaysia during FYE 2018. This is in line with the increase in manufacturing activities and additional manufacturing lines set up for the manufacturing of new range of household products by the Dyson Group of Companies.

However, revenue contribution from the maintenance and technical support services segment decreased by RM1.11 million or 14.6% from RM7.61 million during FYE 2017 to RM6.50 million during FYE 2018 due to the reduction in the overall maintenance rates charged for our services rendered to our customers in the Philippines during FYE 2018. We have employed 2 Filipino employees based in the Philippines to mainly provide maintenance and technical support services to Dyson Group of Companies' overseas manufacturing facilities in the Philippines in FYE 2018. In addition, revenue contribution from the provision of DMS decreased by RM0.84 million or 36.4% from RM2.30 million during FYE 2017 to RM1.46 million during FYE 2018, as we have only completed the commissioning of 7 DMS installations during FYE 2018, as compared to 11 DMS installations during FYE 2017.

Complementary products and services**Design and fabrication of metal sheets, panels and precision parts**

Revenue contribution increased by RM0.18 million or 7.3% due to the contribution of revenue of RM0.83 million from the consolidation of financial results of i-Stone Engineering on 1 January 2018.

However, this increase in revenue was partially offset by the decrease in revenue contribution from the design and fabrication of metal panels and frames, decreasing by RM0.65 million or 25.7% from RM2.53 million during FYE 2017 to RM1.88 million during FYE 2018. This is due to the decrease in standalone sales of metal panels and frames to our non-manufacturing automation customers (i.e. customers that do not purchase our products and services under the manufacturing automation segment). Instead, we had focused on providing in-house fabrication of metal panels and frames activities to form the structure and casing of our specialised automation machines.

Distribution of manufacturing automation hardware and software

Revenue contribution decreased marginally by RM0.05 million or 0.5% during FYE 2018, due to the overall decrease in sales of statistical analysis software (including trainings provided to participants for the usage of these statistical analysis software) and Digi's wireless telecommunication devices by RM0.59 million. Our Group have continuously prioritised continuous expansion plans for the manufacturing automation segment as set out in Section 7.12, our Group does not intend to prioritise the growth of the distribution of statistical analysis software and wireless telecommunication devices segment as our management believe it can grow organically with minimal management time and resources. These products are normally purchased by our recurring customers who require the usage of the distribution of statistical analysis software and wireless telecommunication devices for its manufacturing activities.

11. FINANCIAL INFORMATION (cont'd)

The growth in our manufacturing automation segment is also expected to have a spill over effect and generate leads for potential sales of our wireless telecommunication devices. However, the decrease was offset by the revenue contribution from our robotic arms segment of RM0.55 million during FYE 2018.

(b) Analysis of cost of sales, GP and GP margin

The fluctuation in our overall cost of sales was in tandem with our revenue for the financial years under review.

(i) Analysis of cost of sales, GP and GP margin by business segments

The breakdown of our Group's overall cost of sales by business segments is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<u>Manufacturing automation</u>								
Design, manufacturing and modification of specialised automation machines	21,761	71.9	20,008	66.7	28,332	69.5	33,311	73.4
Maintenance and technical support services	2,309	7.6	3,159	10.5	4,173	10.2	3,890	8.6
Provision of DMS	644	2.1	793	2.7	1,517	3.7	909	2.0
Sub-total	24,714	81.6	23,960	79.9	34,022	83.4	38,110	84.0
<u>Complementary products and services</u>								
Design and fabrication of metal panels, frames and precision parts	-	-	684	2.3	1,673	4.1	1,878	4.1
Distribution of manufacturing automation hardware and software	5,574	18.4	5,337	17.8	5,074	12.5	5,376	11.9
Sub-total	5,574	18.4	6,021	20.1	6,747	16.6	7,254	16.0
Total	30,288	100.0	29,981	100.0	40,769	100.0	45,364	100.0

Generally, the proportion of our cost of sales for each business segment corresponds to the proportion of the revenue contribution of each business segment for the financial years under review.

11. FINANCIAL INFORMATION (cont'd)

The breakdown of our Group's GP and GP margin by business segments is as follows:

	Audited				Audited			
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	GP margin %	RM'000	GP margin %	RM'000	GP margin %	RM'000	GP margin %
Manufacturing automation								
Design, manufacturing and modification of specialised automation machines	8,623	28.4	7,888	28.3	11,195	28.3	15,235	31.4
Maintenance and technical support services	2,413	51.1	2,330	42.4	3,438	45.2	2,608	40.1
Provision of DMS	306	32.2	338	29.9	779	33.9	552	37.8
Sub-total	11,342	31.5	10,556	30.6	15,412	31.2	18,395	32.6
Complementary products and services								
Design and fabrication of metal panels, frames and precision parts	-	-	33	4.6	854	33.8	833	30.7
Distribution of manufacturing automation hardware and software	2,494	30.9	2,557	32.4	3,346	39.7	2,999	35.8
Sub-total	2,494	30.9	2,590	30.1	4,200	38.4	3,832	34.6
Total	13,836	31.4	13,146	30.5	19,612	32.5	22,227	32.9

Manufacturing automation

The table below sets out our cost of sales for the manufacturing automation for the financial year under review:

	Audited				Audited			
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials consumed	21,471	70.9	19,554	65.2	27,898	68.4	27,497	60.6
Direct labour	2,986	9.8	3,980	13.3	5,636	13.8	8,848	19.5
Factory overheads and direct expenses	257	0.9	426	1.4	488	1.2	1,765	3.9
Total	24,714	81.6	23,960	79.9	34,022	83.4	38,110	84.0

11. FINANCIAL INFORMATION (cont'd)**(ii) Analysis of cost of sales by cost component**

The cost of sales of our manufacturing automation segment mainly comprises the following:

(a) Raw materials consumed

The breakdown of the raw materials consumed by our Group is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Computer peripherals, software, industrial computer and embedded systems	3,930	18.3	3,548	18.2	6,510	23.3	7,012	25.5
Electrical instruments	7,911	36.8	6,509	33.3	7,980	28.6	8,848	32.2
Electronic components, precision parts and mechanical components	4,610	21.5	4,562	23.3	7,441	26.7	7,840	28.5
Metal sheets, plates and precision parts	4,102	19.1	4,128	21.1	5,044	18.1	2,698	9.8
Production consumables	918	4.3	807	4.1	923	3.3	1,099	4.0
Total	21,471	100.0	19,554	100.0	27,898	100.0	27,497	100.0

These raw materials are generally widely available and sourced from both local and foreign suppliers, including suppliers specified by our customers. The prices of these raw materials are mainly influenced by the overall market supply and demand conditions.

(b) Direct labour costs

Direct labour costs mainly consist of salaries/wages, bonuses, employees' provident fund contributions and other staff-related benefits for our manufacturing and engineering workforce. In addition, direct labour costs also include staff related expenses for our engineers and technicians involved in providing maintenance and technical support services.

11. FINANCIAL INFORMATION (cont'd)**(c) Factory overheads and direct expenses**

Factory overheads comprise mainly the following:

- depreciation on plant and machinery deployed in our Group's manufacturing facilities in Johor Bahru, Johor;
- factory utilities;
- direct expenses such as packaging, freight and related charges, insurance, packing, crating and related charges, custom duties, transportation charges and other miscellaneous costs incurred; and
- rental of factory and equipment (such as forklifts)

Complementary products and services

The table below sets out our cost of sales for the complementary products and services activities for the financial years under review:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchases	5,218	17.2	4,976	16.6	4,694	11.5	5,024	11.2
Raw materials consumed	-	-	456	1.5	928	2.3	957	2.1
Direct labour	-	-	90	0.3	531	1.3	607	1.3
Training costs	294	1.0	304	1.0	324	0.8	318	0.7
Factory overheads and direct expenses	62	0.2	195	0.7	270	0.7	348	0.7
Total	5,574	18.4	6,021	20.1	6,747	16.6	7,254	16.0

The cost of sales of our complementary products and services segment mainly comprises the following:

(a) Purchases

Purchases mainly consist of the following:

- statistical analysis software from Minitab;
- Digi's range of wireless communication devices and embedded products; and
- robotic arms from Universal Robots.

11. FINANCIAL INFORMATION (cont'd)**(b) Raw materials consumed**

Raw materials consumed are used for the design and fabrication of metal panels, frames and precision parts and consist of, amongst others, the following:

- aluminium profile, metal sheets, polycarbonate sheets, stainless steel/plates, rods and bars; and
- precision parts and mechanical components such as bolts, nuts, clips, screws, hinges and others.

These raw materials are generally widely available and sourced from both local and foreign suppliers, including suppliers specified by our customers. The prices of these raw materials are mainly influenced by the overall market supply and demand conditions.

(c) Direct labour costs

Direct labour costs mainly consist of salaries/wages, bonuses, employees' provident fund contributions and other staff-related benefits. No direct labour cost was incurred during FYE 2015 as P.A. Metal became our subsidiary in end-June 2016.

(d) Training costs

Training costs relates to trainer fees, rental of event location, travelling expenses and related costs for providing training to participants on the usage of the statistical analysis software organised by Bizit Systems Malaysia and Bizit Systems Singapore. We charge a certain fee for providing such training, which are provided by our in-house and external trainers who are familiar with usage and functionalities of the statistical analysis software.

(e) Factory overheads and direct expenses

Factory overheads and direct expenses comprises mainly carriage inwards, rental of factory and equipment/machineries, factory utilities as well as repair and upkeep of machineries, factory premises and motor vehicles. Prior to the acquisition of the 60.0% equity interest in P.A. Metal in June 2016, our Group's factory overheads and direct expenses were contributed by Bizit Systems Malaysia and Bizit Systems Singapore during FYE 2015. These expenses were mainly incurred for the distribution of manufacturing automation hardware and software sub-segment, such as carriage inwards, repairs and upkeep of motor vehicles.

(iii) Commentaries on cost of sales, GP and GP margin**Comparison between FYE 2015 and FYE 2016****Manufacturing automation**

Cost of sales decreased by RM0.75 million or 3.1%, from RM24.71 million in FYE 2015 to RM23.96 million in FYE 2016, which was in line with the decrease in revenue by 4.3%.

However, direct labour costs increased by RM0.99 million or 33.3% due to the increase in size of our manufacturing and engineering workforce, from 110 personnel as at 31 December 2015 to 136 personnel as at 31 December 2016 to

11. FINANCIAL INFORMATION (cont'd)

support additional modification works of existing machines, maintenance, technical support, installation of DMS and on-site technical support services performed.

As a result, our GP margin for the manufacturing automation segment decreased by 0.9% from 31.5% for FYE 2015 to 30.6% for FYE 2016.

Complementary products and services

For the design and fabrication of metal panels, frames and precision parts segment, cost of sales mainly comprise raw materials consumed by P.A. Metal for the manufacturing of various metal frames, switchboards and steel frames.

For the distribution of manufacturing automation hardware and software segment, the cost of sales mainly relates to the purchases of statistical analysis software and wireless communication devices. The decrease in purchases of RM0.24 million or 4.3% during FYE 2016 was in line with decrease in revenue contribution from this segment.

Overall GP margin from the complementary products and services decreased by 0.8% from 30.9% during FYE 2015 to 30.1% during FYE 2016 arising from the consolidation of the financial results of P.A. Metal (which became our subsidiary in June 2016). During FYE 2016, we had incurred higher wastage of raw materials by RM0.24 million belonging to P.A. Metal as certain raw materials were not suitable (in terms of specification of the metal sheets) for the usage of our metal sheet fabrication activities, which resulted in a lower GP margin of 4.6%. However, such wastage is not a common occurrence in our Group's fabrication activities.

However, GP margin for the distribution of manufacturing automation hardware and software segment has increased by 1.5% from 30.9% for FYE 2015 to 32.4% for FYE 2016, as we had provided more training sessions to our customers on the usage of the statistical analysis software, which commanded a higher margin. As part of our distribution of statistical analysis software activity, we charge our customers for related training sessions.

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

Cost of sales increased by RM10.06 million or 42.0%, from RM23.96 million in FYE 2016 to RM34.02 million in FYE 2017 in line with the increase of our revenue. Direct labour costs constitute 16.6% of the manufacturing automation segment's cost of sales during FYE 2016 and FYE 2017. Included in these direct labour costs are bonuses paid to the manufacturing and engineering workforce of RM1.49 million during FYE 2017 as compared to RM1.21 million during FYE 2016.

GP margin increased slightly by 0.6% from 30.6% for FYE 2016 to 31.2% for FYE 2017 mainly due to the following:

- (a) increase in GP margin from the maintenance and technical support services segment by 2.8% from 42.4% during FYE 2016 to 45.2% during FYE 2017, as we had performed more maintenance services at our customers' overseas factories (in particular the Philippines) which has higher margin.

11. FINANCIAL INFORMATION (cont'd)

- (b) however, this increase in GP margin for the maintenance services during FYE 2017 has been partly offset by lower margin from the supply of spare parts to our customers.

Complementary products and services

The cost of sales increased by RM0.73 million or 12.1%, from RM6.02 million in FYE 2016 to RM6.75 million in FYE 2017. However, revenue increased by RM2.34 million or 27.1% during the same period.

As a result, our GP margin increased by 8.3% from 30.1% for FYE 2016 to 38.4% for FYE 2017. The increase in GP margin was mainly due to:

- (a) increase in GP margin for the design and fabrication of metal panels, frames and precision parts segment by 29.2%; and
- (b) increase in GP margin from the distribution of manufacturing automation hardware and software segment from 32.4% in FYE 2016 to 39.7% in FYE 2017 due to change in product mix whereby we sold higher number of statistical analysis software (including related training courses) which commanded higher GP margin.

Comparison between FYE 2017 and FYE 2018**Manufacturing automation**

Cost of sales increased by RM4.09 million or 12.0%, from RM34.02 million in FYE 2017 to RM38.11 million in FYE 2018, which is in line with the increase of our revenue.

GP margin improved by 1.4% from 31.2% in FYE 2017 to 32.6% in FYE 2018 mainly due to the following:

- (a) improvement in GP margin from the design, manufacturing and modification of specialised automation machines segment, as we performed more modification works for existing specialised automation machines (which were previously manufactured by our Group) during FYE 2018, which commands a higher GP margin; and
- (b) improvement in GP margin for the provision of DMS segment by 3.9% due to lesser manhours incurred by our manufacturing and engineering workforce to develop similar DMS software for our major customers.

However, the above increase in GP margin was offset by the decrease in GP margin from the maintenance and technical support services segment by 5.1%, as we have completed the maintenance services at our customers' overseas manufacturing facilities (mainly in Philippines), which commanded higher margin in FYE 2017. As such, this has resulted in a lower GP margin during FYE 2018.

Complementary products and services

Cost of sales increased by RM0.51 million or 7.5%, from RM6.75 million in FYE 2017 to RM7.25 million in FYE 2018. However, GP margin for this segment decreased by 3.8% from 38.4% for FYE 2017 to 34.6% for FYE 2018, mainly due to the following:

11. FINANCIAL INFORMATION (cont'd)

- (a) decrease in GP margin for the design and fabrication of metal panels, frames and precision parts segment by 3.1% from 33.8% in FYE 2017 to 30.7% in FYE 2018 mainly due to:-
- (i) lower revenue for the design and fabrication of metal panels and frames sub-segment by 25.4% during FYE 2018. Metal panels and frames command a higher GP margin as compared to precision parts; and
 - (ii) the consolidation of the results of i-Stone Engineering (which is involved in the design and fabrication of precision parts) during FYE 2018. We did not consolidate the results of the design and fabrication precision parts sub-segment during FYE 2017 as i-Stone Engineering was our associate company at that time.

Our precision parts normally command a lower GP margin compare to our metal panels and frames as each precision part has a lower sales value; and

- (b) decrease in GP margin from the distribution of manufacturing automation hardware and software segment by 3.9% from 39.7% in FYE 2017 to 35.8% in FYE 2018 due to the change in product mix. In FYE 2018, we sold lower number of statistical analysis software (including related training courses) which commanded higher GP margin. In addition we commenced selling robotic arms from June 2018 onwards, which has lower margin.

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION (cont'd)**(c) Other income**

The breakdown of our other income for the 4 FYEs 2015 to FYE 2018 is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Rental income	117	23.7	276	36.5	314	50.2	109	4.1
Government grants ⁽¹⁾								
- Singapore	153	31.0	-	-	24	4.0	-	-
- Malaysia	12	2.4	-	-	-	-	-	-
Gain on foreign exchange								
- Realised	137	27.7	55	7.3	141	22.6	101	3.8
- Unrealised	18	3.6	68	9.0	-	-	22	0.8
Gain on disposal of property, plant, equipment, assets held for sale and investment properties ⁽²⁾	-	-	124	16.4	-	-	1,540	57.5
Interest income	6	1.2	15	2.0	14	2.2	3	0.1
Gain on disposal of investment in companies	-	-	-	-	-	-	(5)358	13.4
Gain on remeasurement in associate stake	-	-	-	-	-	-	(6)533	19.9
Gain on disposals of quoted securities	-	-	81	10.7	-	-	-	-
Forfeiture of deposit received ⁽³⁾	-	-	-	-	53	8.4	-	-
Dividend income from investment in quoted securities	5	1.0	6	0.8	-	-	-	-
Dividend income from One Galaxy Capital (then associate company of i-Stone Technology)	-	-	-	-	75	12.0	-	-
Administrative and accounting fees ⁽⁴⁾	30	6.1	115	15.2	-	-	-	-
Others ⁽⁷⁾	16	3.3	16	2.1	4	0.6	12	0.4
Total	494	100.0	756	100.0	625	100.0	2,678	100.0

Notes:

(1) These Government grants comprise the following:

- (a) reimbursable government grants by the Singapore Government (namely Infocomm Development Authority of Singapore and Productivity and Innovation Credit Scheme, Singapore) for the purchase of computer hardware, training, software and peripherals; and
- (b) exhibition grant by the Malaysia External Trade Development Corporation (MATRADE) for participating in exhibitions organised by MATRADE

11. FINANCIAL INFORMATION (cont'd)

These grants are not recurring income to our Group. Approved purchases are reimbursed to us upon application for the said grants. All grants have since been fully utilised by our Group.

(2) Details on the gain of disposal of the property, plant, equipment, assets held for sale and investment properties of our Group are as follows:

No.	Property, plant, equipment, assets held for sale and investment properties	FYE 2016						FYE 2018		
		NBV RM'000	Gross disposal consideration RM'000	(a)Gain/ (Loss) on disposal RM'000	NBV RM'000	Gross disposal consideration RM'000	(a)Gain/ (Loss) on disposal RM'000	NBV RM'000	Gross disposal consideration RM'000	(a)Gain/ (Loss) on disposal RM'000
(a)	Double storey semi-detached factory bearing the postal address of No. 12, Jalan Perdagangan 8, Taman Universiti 81300 Kangkar Pulai, Johor	-	-	-	1,273	1,300	25			
(b)	Double storey shop house erected the postal address of No. 17 & 17A, Jalan Pulai 26, Taman Pulai Utama 81300 Kangkar Pulai, Johor	-	-	-	447	480	26			
(c)	Double storey shop house erected the postal address of No. 25 & 25A, Jalan Pulai 26, Taman Pulai Utama 81300 Kangkar Pulai, Johor	-	-	-	456	480	20			
(d)	Double storey shop office bearing the postal address of No. 8 & 8A, Jalan Pulai 25, Taman Pulai Utama, Kangkar Pulai 81300 Johor Bahru, Johor	380	510	62	-	-	-			
(e)	Semi-detached factory erected thereon bearing the postal address of No. 33, Jalan Laman Setia 7/8, Taman Laman Setia 81550 Ulu Choh, Johor	-	-	-	2,829	2,600	(b)(231)			
(f)	Double storey shop house bearing the postal address of No. 18 and 18 – First Floor, Persiaran Mahsuri 1/2, Sunway Tunas 11900 Bayan Lepas, Pulau Pinang	-	-	-	746	1,250	478			
(g)	Disposal of motor vehicles and machineries	49	110	62	115	276	161			
(h)	Apartment unit held bearing the postal address of 55-1-2, Jalan Pulai 44, Taman Pulai Utama 81110 Kangkar Pulai, Johor	-	-	-	118	135	10			
(i)	Double storey semi-detached factory measuring 704 sq m erected thereon bearing the postal address of No. 24, Jalan Perdagangan 8, Taman Universiti 81300 Kangkar Pulai, Johor	-	-	-	382	1,300	898			
(j)	Single storey cluster factory with mezzanine office measuring approximately 517 sq m thereon bearing the postal address of No. 74, Jalan SME 3, Kawasan Perindustrian SME, Bandar Indahpura 81000 Kulai, Johor	-	-	-	1,446	1,600	153			
	Total	429	620	124	7,812	9,421	1,540			

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

- (a) After taking into consideration the stamp duties, legal costs and related fees for the disposal of these properties
 - (b) The disposal consideration of RM2.60 million was arrived at after taking into consideration the market value of this property
- (3) This relates to the income received by i-Stone Technology for the forfeiture of deposit received from Unclezam Food Network Sdn Bhd for the disposal of a single storey cluster factory with mezzanine office thereon bearing the postal address of No. 74, Jalan SME 3, Kawasan Perindustrian SME, Bandar Indahpura 81000 Kulai, Johor. The disposal of this property was not completed due to Unclezam Food Network Sdn Bhd's failure to settle the balance purchase price of RM1,650,000.
- (4) This relates to fees received for administrative and accounting services rendered to i-Stone Engineering and Venture Primus.
- (5) This refers to the gain on disposal of the equity interests held by i-Stone Technology in non-core subsidiaries/associate pursuant to the Disposals by i-Stone Technology, after taking into consideration real property gains tax and foreign translation differences
- (6) Pursuant to the acquisition of the 30.0% equity interest in i-Stone Engineering by i-Stone Technology, the existing 40.0% equity holding held by i-Stone Technology was revalued to reflect its fair value.
- (7) The other expenses include the following:
- (a) One-off refund for the hiring cost of foreign workers employed by i-Stone International and Bizit Systems Singapore under the Wage Credit Scheme by the Inland Revenue Authority of Singapore. Under such scheme, the Singapore Government shall subsidise employers for their monthly contribution towards the foreign employees' contribution in the Central Provident Fund of Singapore; and
 - (b) reimbursement made by POD Systems Sdn Bhd (a former subsidiary of Venture Primus) for certain expenses incurred on its behalf by i-Stone Technology and i-Stone Solutions of RM50,262 during FYE 2017.

Comparison between FYE 2015 and FYE 2016

Our Group's other income increased by RM0.26 million or 53.0% from RM0.49 million for FYE 2015 to RM0.76 million for FYE 2016. The increase was mainly attributable to the following:

- (a) increase in rental income by RM0.16 million due to additional investment properties acquired in Johor and Pulau Pinang; and
- (b) one-off gain of RM0.06 million from the disposal of a double storey shop office located at No. 8 & 8A, Jalan Pulai 25, Taman Pulai Utama, Kangkar Pulai, 81300 Johor Bahru, Johor during FYE 2016 as well as gain on disposal of motor vehicle of RM0.06 million

11. FINANCIAL INFORMATION (cont'd)

Comparison between FYE 2016 and FYE 2017

Our Group's other income decreased by RM0.13 million or 17.3% from RM0.76 million for FYE 2016 to RM0.63 million for FYE 2017, mainly due to the one-off gain of RM0.12 million from the disposal of a property, during FYE 2016.

Comparison between FYE 2017 and FYE 2018

The increase in other income for FYE 2018 was mainly due to the following:

- (a) one-off gain on disposal of properties, plant, equipment, assets held for sale and investment properties of RM1.54 million mainly due to the gain of RM1.38 million arising from the disposal of our properties and assets held for sale in Johor and Pulau Pinang;
- (a) gain on disposal of our investments of RM0.36 million held in the equity interests of One Galaxy Capital, One Galaxy Equity, One Galaxy Systems and Venture Primus pursuant to the Disposals by i-Stone Technology; and
- (b) one-off gain on remeasurement in associate stake of RM0.53 million during FPE 2018. Pursuant to the acquisition of the 30.0% equity interest in i-Stone Engineering by i-Stone Technology which was completed on 1 January 2018, i-Stone Engineering, which was our associate company, became our subsidiary. The existing 40.0% equity holding held by i-Stone Technology prior to the acquisition was revalued upwards to reflect its fair value.

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION (cont'd)**(d) Distribution, administrative and other expenses**

The breakdown of our distribution, administrative and other expenses are as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	3,825	38.3	3,496	39.9	5,401	49.3	5,574	44.0
Directors' remunerations	1,945	19.5	1,968	22.5	2,306	21.0	2,052	16.2
Depreciation of property, plant, equipment and investment properties	515	5.1	631	7.2	610	5.6	523	4.1
Sales and marketing	340	3.4	988	11.3	801	7.3	529	4.2
Professional fees ⁽¹⁾	220	2.2	248	2.8	284	2.6	1,588	12.5
Office expenses	588	5.8	708	8.1	732	6.7	767	6.1
Fair value adjustment on other investments	20	0.2	-	-	-	-	-	-
Impairment loss on other investments in former subsidiary/associate company	632	6.3	-	-	-	-	-	-
Impairment loss on goodwill	1,212	12.1	-	-	-	-	-	-
Property, plant and equipment written off	-	-	-	-	-	-	230	1.8
Loss on disposal of other investments	19	0.2	46	0.5	-	-	38	0.3
Loss on foreign exchange	360	3.6	269	3.1	443	4.0	769	6.1
Other expenses ⁽²⁾	325	3.3	405	4.6	391	3.5	580	4.7
Total	10,001	100.0	8,759	100.0	10,969	100.0	12,650	100.0

Notes:

- (1) Mainly consist of professional fees incurred for audit, taxation, legal, brokerage, commissions, consultation and secretarial fees as well as fees for marketing services engaged by Bizit Systems Malaysia and Bizit Systems Singapore
- (2) Mainly consist of carriage outwards, delivery charges, vehicle charges, business licenses as well as other miscellaneous expenses.

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

Our Group's distribution, administrative and other expenses decreased by RM1.24 million or 12.4% from RM10.00 million for FYE 2015 to RM8.76 million for FYE 2016, which was mainly attributable to the following:

- (i) lower impairment loss on investments in companies by RM1.84 million. During FYE 2015, our Group had recorded the following one-off impairment losses:
 - (a) impairment on goodwill in Bizit Systems Malaysia of RM1.21 million; and
 - (b) impairment on investment in our former subsidiary/associate company of RM0.61 million
- (ii) decrease in staff costs by RM0.33 million. During FYE 2015, we incurred share based-payments expenses of RM0.41 million which relates to redeemable preference shares issued to certain of our employees. i-Stone Technology has issued preference shares to certain employees as part of their entitlement to reward them for their contribution to the Company. The share based-payments expenses relate to the fair value of the benefits enjoyed by these employees. The dividends paid on these preference shares were deemed share-based payment expenses. During FYE 2016, we did not incur any share based-payments expenses.

Comparison between FYE 2016 and FYE 2017

Our Group's distribution, administrative and other expenses increased by RM2.21 million or 25.2% from RM8.76 million for FYE 2016 to RM10.97 million for FYE 2017, which was mainly attributable to the following:

- (i) increase in staff costs and Directors' remunerations by RM2.25 million or 41.2% from RM5.46 million during FYE 2016 to RM7.71 million during FYE 2017 due to the following:
 - (a) consolidation of P.A Metal's staff costs of RM0.41 million when P.A Metal became our subsidiary during FYE 2016;
 - (b) increase in staff costs by RM0.66 million mainly due to the hiring of additional staff for marketing, and administrative activities as well as higher bonus payout made to our staff during FYE 2017; and
 - (c) share based-payments expenses of RM1.20 million for certain of our Directors and employees during FYE 2017.
- (ii) increase in loss on realised foreign exchange by RM0.17 million or 64.7% from RM0.27 million during FYE 2016 to RM0.44 million during FYE 2017 due to strengthening RM against USD, thus reducing the amount of revenue recognised from our USD-denominated sales to a major customer in the Philippines.

Comparison between FYE 2017 and FYE 2018

Our distribution, administrative and other expenses increased by RM1.68 million or 15.3% from RM10.97 million for FYE 2017 to RM12.65 million for FYE 2018 due to the following:

11. FINANCIAL INFORMATION (cont'd)

- (a) increase in professional fees incurred by RM1.30 million mainly due to increase in professional fees incurred for our Listing of RM1.13 million;
- (b) property, plant and equipment written off of RM0.23 million, mainly comprising of renovation, fixtures and fittings at our previous 3 factory premises located at Taman Universiti, Johor and Kempas, Johor, which was disposed during FYE 2018; and
- (c) increase in loss on foreign exchange by RM0.33 million due to the strengthening of RM against USD and SGD, thus resulting in decrease in revenue recognised from our USD and SGD denominated sales; and
- (d) increase in other expenses by RM0.20 million mainly due to increase in carriage outwards cost.

Overall sales and marketing costs decreased by RM0.27 million from RM0.80 million during FYE 2017 to RM0.53 million during FYE 2018 due to the decrease in the marketing expenses incurred by i-Stone International. Prior to FYE 2018, i-Stone International had engaged a third party to undertake certain sales activities of its specialised automation machines in Singapore. However, in 2018, i-Stone International had taken over this marketing function by using its existing resources and staff.

(e) Finance costs

Our Group's finance costs consist mainly of interest expenses on term loans, trade facilities and hire purchases, which are utilised in the normal course of operations as well as for the purchase of investment properties. The breakdown of our finance costs for the financial years under review are as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:								
• Term loans	180	82.9	217	92.3	246	88.8	222	78.4
• Hire purchase	15	6.9	13	5.5	14	5.1	17	6.0
• Bankers' acceptance	11	5.1	1	0.4	6	2.2	10	3.5
• Bank overdraft	9	4.1	~	0.1	10	3.6	32	11.3
Bank commitment fees	2	1.0	4	1.7	1	0.3	2	0.8
Total	217	100.0	235	100.0	277	100.0	283	100.0

Note:

~ Less than RM1,000

We utilise bankers' acceptance and bank overdraft to finance our working capital, which includes inventories and trade receivables; while term loans are utilised for the acquisition of properties. A large part of our finance costs are interests paid for term loans which are utilised to acquire new properties in Johor, Kuala Lumpur and Pulau Pinang during the financial years under review. Our finance costs for the financial years under review were less than 1.0% of our Group's total revenue for the respective financial years under review.

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

Our finance costs mainly comprise interest expenses incurred on our term loans due to term loans secured for the purchase of 4 units of properties (3 of the properties were acquired during FYE 2015, namely a double storey semi-detached factory unit in Taman Universiti, Johor and 2 double-storey shoplot units in Taman Pulai Utama, Johor whilst 1 property in Sunway Velocity, Kuala Lumpur was acquired in 2013 which its construction was completed during FYE 2015).

Comparison between FYE 2016 and FYE 2017

Our finance costs further increased by RM0.04 million or 17.9% from RM0.24 million during FYE 2016 to RM0.28 million in FYE 2017. The increase was mainly contributed by increase in interest expenses due to the higher net outstanding amount of our Group's existing term loans secured during FYE 2015 and FYE 2016 as well as higher interest incurred for our bankers' acceptance and bank overdraft facilities.

Comparison between FYE 2017 and FYE 2018

Our finance costs increased by RM5,923 or 2.2% from RM277,464 during FYE 2017 to RM283,387 in FYE 2018, mainly due to the increase in utilisation of bank overdraft facilities and bankers' acceptance, which resulted in interest expenses increasing by RM25,600. However, term loan interest expenses decreased by RM23,564 due to the settlement of various term loans as a result of disposals of various properties located in Johor during FYE 2018.

(f) Share of results of an associate

During FYE 2015 to FYE 2017, i-Stone Engineering was a 40.0% associate of i-Stone Technology. On 1 January 2018, i-Stone Engineering became our subsidiary when i-Stone Technology acquired a further 30.0% equity interest in i-Stone Engineering.

Based on the audited combined statements of profit or loss and other comprehensive income, our Group's share of results of an associate is accounted for using the equity accounting method. Our Group's share of financial results of an associate generated by i-Stone Engineering, are as follows:

Audited			
FYE 2015	FYE 2016	FYE 2017	FYE 2018
RM'000	RM'000	RM'000	RM'000
339	202	399	-

(g) PBT and PBT margin

Our Group's PBT and PBT margin for the financial years under review are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
PBT (RM'000)	4,451	5,110	9,390	11,972
PBT margin (%)	10.1	11.8	15.6	17.7

11. FINANCIAL INFORMATION (cont'd)

For FYE 2016, our Group recorded a higher PBT of RM5.11 million mainly due to increase in other income generated and the decrease in our Group's distribution, administrative and other expenses in FYE 2016 as compared to the previous year. Thus, our PBT margin increased to 11.8%.

For FYE 2017, our Group recorded a higher PBT of RM9.39 million mainly due to higher revenue and GP for FYE 2017 which was off-set by a slight increase in distribution, administrative and other expenses. Thus, our PBT margin increased to 15.6%.

For FYE 2018, our Group recorded higher PBT of RM11.97 million in FYE 2018 mainly due to the increase in our Group's GP and other income in FYE 2018 as compared to FYE 2017. Thus, our PBT margin increased to 17.7%.

(h) Taxation

The taxation and effective tax rate for the financial years under review are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Tax expense (RM'000)	295	367	765	406
Origination and reversal of temporary differences (RM'000)	(20)	(5)	-	455
Under/(Over) provision in prior years	5	(2)	-	(359)
Share of tax expenses in associate	79	42	75	-
Taxation (RM'000)	359	402	840	502
Effective tax rate (%)	8.1	7.9	8.9	4.2
Statutory tax rate (%)	25.0	24.0	24.0	24.0

Taxation expenses comprises current financial year's income tax, origination and reversal of temporary differences, any under or overprovision of taxation in the previous financial years as well as share of taxation expenses in i-Stone Engineering. i-Stone Systems and i-Stone Solutions are entitled to pioneer status incentives under the PIA.

i-Stone Systems is entitled to pioneer status incentives under the PIA which grants a tax exemption of up to 70.0% of the statutory income for a period 5 years (i.e. from 1 January 2017 to 31 December 2021).

i-Stone Solutions is entitled to pioneer status incentives under the PIA which grants a tax exemption of up to 100.0% of the statutory income for a period 5 years (i.e. from 5 December 2013 to 4 December 2018).

Due to tax incentives arising from the pioneer status for i-Stone Systems and i-Stone Solutions, the effective tax rate was lower as compared to the statutory tax rate during the financial years under review.

Overall taxation expenses decreased by RM0.34 million from RM0.84 million during FYE 2017 to RM0.50 million during FYE 2018, due to the one-off over provision of taxation expenses in prior years arising from additional tax savings in prior assessment year due to the pioneer status of i-Stone Systems.

11. FINANCIAL INFORMATION (cont'd)

The non-renewal of the pioneer status for i-Stone Solutions will directly affect our financial performance, as it will be subject to the prevailing tax rate of 24.0%. In such circumstances, our Group's overall profitability levels may be affected as i-Stone Solutions is one of the main profit contributors to our Group during the historical financial years under review.

11.2.3 Review of financial position**(a) Assets**

Our assets for the financial years under review comprise the following:

	Audited			
	As at 31 December 2015	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018
	RM'000	RM'000	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000
<u>Non-current assets</u>				
Property, plant and equipment	2,968	4,658	4,205	23,088
Investment properties	7,455	6,925	6,538	290
Investment in associate companies	303	382	466	-
Other investments	632	280	1,780	-
Goodwill on consolidation	-	5	5	856
Total non-current assets	11,358	12,250	12,994	24,234
<u>Current assets</u>				
Assets held for sale	-	-	746	-
Inventories	1,784	1,329	3,355	8,679
Trade receivables	9,615	12,153	15,747	12,218
Other receivables	1,587	1,234	3,351	629
Current tax assets	-	-	-	530
Cash and bank balances	3,581	6,440	5,062	3,800
Total current assets	16,567	21,156	28,261	25,856
TOTAL ASSETS	27,925	33,406	41,255	50,090

Comparison between 31 December 2015 and 31 December 2016**Non-current assets**

Our non-current assets increased by RM0.89 million or 7.9% in FYE 2016 mainly due to the following:

- (a) consolidation of the non-current assets of P.A. Metal (which are categorised as property, plant and equipment of our Group) which comprises machineries and equipment for its design and fabrication of metal panels and frames segment; and
- (b) the property, plant and equipment increased from RM2.97 million during FYE 2015 to RM4.66 million during FYE 2017 due to the reclassification of the carrying amount of RM1.30 million on the factory premise owned by i-Stone Technology at No. 12, Jalan Perdagangan 8, Taman Universiti, Johor from investment properties due to the change in usage as owner occupied.

11. FINANCIAL INFORMATION (cont'd)

However, the increase was partly offset by the disposal of a double storey shop office located at No. 8 & 8A, Jalan Pulai 25, Taman Pulai Utama, Kangkar Pulai, 81300 Johor Bahru, Johor for the disposal consideration of RM0.51 million.

Current assets

Our current assets increased by RM4.59 million or 27.7% in FYE 2016 mainly due to the following:

- (a) increase in trade receivables by RM2.54 million or 26.4% during FYE 2016 as most of the sales of new specialised automation machines were delivered to our major customers for our manufacturing automation business segment during the fourth quarter of FYE 2016 for the total amount of RM10.94 million, which was still within the credit period granted to our major customers of up to 90 days; and
- (b) increase in cash and cash equivalents by RM2.86 million or 79.8% as a result of the following:
 - (i) disposal of the abovementioned double storey shop office located in Taman Pulai Utama, Johor Bahru for RM0.51 million; and
 - (ii) deposits received from our major customers of RM2.02 million for the purchase of new specialised automation machines

Comparison between 31 December 2016 and 31 December 2017**Non-current assets**

Our non-current assets increased by RM0.74 million or 6.1% mainly due to the increase in other investments by RM1.50 million pursuant to the subscription of 1,500,000 redeemable non-cumulative non-convertible preference shares in One Galaxy Capital for a total amount of RM1.50 million.

Current assets

Our current assets increased by RM7.11 million or 33.6% in FYE 2017 mainly due to the following:

- (a) increase in asset held for sale of RM0.75 million, being a shoplots unit located in Bayan Lepas, Pulau Pinang for disposal consideration of RM1.25 million, which was disposed subsequent to FYE 2017;
- (b) increase in inventories levels by RM2.03 million or 152.4% from RM1.33 million in FYE 2016 to RM3.36 million in FYE 2017 due to increase in work-in-progress of new specialised automation machineries by RM2.00 million or 253.4%, from RM0.79 million in FYE 2016 to RM2.79 million in FYE 2017;
- (c) increase in trade receivables by RM3.59 million or 29.6% due to the increase in sales of specialised automation machines; and
- (d) increase in other receivables by RM2.12 million or 171.6% mainly due to the following:
 - (i) increase in amount owing by related parties by RM1.23 million or 130.4%, mainly from the advances provided by i-Stone Technology to i-Stone Gourmet Sdn Bhd, Turnitin and One Galaxy Systems for the total amount

11. FINANCIAL INFORMATION (cont'd)

- of RM2.03 million;
- (ii) increase in amount of Goods and Service Tax of RM0.24 million claimable from the Customs Department of Malaysia; and
 - (iii) increase in prepayments by RM0.34 million or 751.1% from RM0.04 million to RM0.38 million due to downpayment made by P.A. Metal for the purchase of additional hydraulic press brakes and cutting machineries.

Comparison between 31 December 2017 and 31 December 2018**Non-current assets**

Our non-current assets increased by RM11.24 million or 86.5% mainly due to the following:

- (a) increase in property, plant and equipment by RM18.88 million or 449.1% mainly due to the acquisition of our New Factory of RM15.33 million; and
- (b) goodwill on consolidation of RM0.85 million arising from the acquisition of the remaining equity interest in i-Stone Engineering in January 2018.

However, the above increases were offset by the decrease in the following:

- (a) disposal of 3 units of properties with a total NBV of RM1.77 million, 4 units of investment properties with a total NBV of RM5.18 million and 1 unit of assets held for sale with a NBV of RM0.75 million held by i-Stone Technology located in Johor and Pulau Pinang; and
- (b) decrease in other investments by RM1.78 million mainly due to the following:
 - (i) redemption of the 1,500,000 redeemable non-cumulative non-convertible preference shares held by i-Stone Technology and Bizit Systems Singapore in One Galaxy Capital for a total amount of RM1.50 million (at cost); and
 - (ii) disposal of our investments in our former associates/subsidiaries pursuant to the Disposals by i-Stone Technology of RM0.28 million.

Current assets

Our current assets decreased by RM2.41 million or 8.5% in FYE 2018 mainly due to the following:

- (a) decrease in trade receivables by RM3.53 million or 22.4% mainly due to lower sales recorded by our Group during the fourth quarter of FYE 2018, as compared to the fourth quarter of FYE 2017;
- (b) reduction of overall cash and bank balances by RM1.26 million mainly due to payment of deposit of RM1.54 million for the acquisition of our New Factory during FYE 2018; and
- (c) decrease in other receivables by RM2.72 million or 81.2% mainly due to the repayment of advances provided to our related parties of RM2.17 million.

However, the above decreases were offset by the increase in the following:

- (a) increase in inventories by RM5.32 million or 158.7% from RM3.36 million in FYE 2017 to RM8.68 million in FYE 2018 mainly due to increase in work-in-progress of new specialised automation machines by RM4.60 million or 165.2%, from

11. FINANCIAL INFORMATION (cont'd)

RM2.79 million in FYE 2017 to RM7.39 million in FYE 2018 due to additional orders of new specialised automation machines received from our major customers;

- (b) current tax assets of RM0.53 million due to overestimation of tax expenses declared on the tax computation for i-Stone Systems.

(b) Liabilities

Our liabilities for the financial years under review comprise the following:

	Audited			
	As at 31 December 2015 RM'000	As at 31 December 2016 RM'000	As at 31 December 2017 RM'000	As at 31 December 2018 RM'000
<u>Non-current liabilities</u>				
Hire purchase payables	229	167	177	274
Loans and borrowings	6,025	5,758	5,086	11,389
Deferred tax liabilities	3	18	18	477
Total non-current liabilities	6,257	5,943	5,281	12,140
<u>Current liabilities</u>				
Trade payables	5,137	5,518	5,960	7,166
Other payables	2,639	5,080	5,181	6,286
Dividends payable	-	-	9,520	-
Hire purchase payables	93	93	131	136
Loans and borrowings	190	346	655	982
Current tax liabilities	44	229	489	-
Total current liabilities	8,103	11,266	21,936	14,570
TOTAL LIABILITIES	14,360	17,209	27,217	26,710

Comparison between 31 December 2015 and 31 December 2016**Non-current liabilities**

Our non-current liabilities decreased by RM0.31 million or 5.0% in FYE 2016 mainly due to the decrease in non-current borrowings due to repayment of 8 term loans totalling RM0.50 million and hire purchase payables during FYE 2016.

Current liabilities

Our current liabilities increased by RM3.16 million or 39.0% in FYE 2016 mainly due to the following:

- (a) increase in trade payables by RM0.38 million or 7.4% due to purchase of raw materials (such as E&E components, metal panels, acoustic chambers and electronic peripherals) for our manufacturing automation segment;
- (b) increase in other payables by RM2.44 million or 92.5% mainly due to the following:
- (i) deposits received increased by RM1.10 million or 118.7% for the orders of specialised automation machines from our major customers; and

11. FINANCIAL INFORMATION (cont'd)

- (ii) accruals increased by RM0.51 million or 38.2% due to bonus accrued for our staff; and
- (iii) sundry payables increased by RM0.41 million or 158.6% mainly due to marketing/consultation fees incurred as well as Goods and Service Tax payable in Singapore and Malaysia during FYE 2016.

Comparison between 31 December 2016 and 31 December 2017**Non-current liabilities**

Our non-current liabilities decreased by RM0.66 million or 11.1% in FYE 2017 mainly due to repayment of a term loan pursuant to the disposal of a double storey shop house located in Pulau Pinang, apportionment of the amount of RM0.43 million relating to a term loan from non-current liabilities to current liabilities as well as hire purchase payables relating to 1 unit of motor vehicle during FYE 2017.

Current liabilities

Our current liabilities increased by RM10.67 million or 94.7% in FYE 2017 mainly due to the following reasons:

- (a) dividends payable of RM9.52 million during FYE 2017, comprises RM8.00 million payable by i-Stone Technology and RM1.52 million payable by Bizit Systems Singapore; and
- (b) increase in trade payables by RM0.44 million due to purchase of additional raw materials for our manufacturing automation segment during the fourth quarter of FYE 2017 in anticipation of higher orders to be received for the first quarter of FYE 2018, which was still within the credit period granted by our suppliers of between 30 and 90 days.

Comparison between 31 December 2017 and 31 December 2018**Non-current liabilities**

Our non-current liabilities increased by RM6.86 million or 129.9% in FYE 2018 mainly due to the drawdown of term loan of RM12.00 million from Maybank Islamic Berhad for the acquisition of our New Factory. However, the increase was offset by the decrease in our Group's other term loans by RM5.76 million as a result of disposal of our properties and investment properties during FYE 2018.

Current liabilities

Our current liabilities decreased by RM7.37 million or 33.6% in FYE 2018 mainly due to the payment of dividends of RM9.52 million and settlement of current tax liabilities of RM0.49 million. However, such decreases were offset by the increases in the following:

- (a) increase in trade payables by RM1.21 million or 20.2% due to purchase of raw materials (such as E&E components, metal panels, acoustic chambers and electronic peripherals) of RM7.10 million during the fourth quarter of FYE 2018; and
- (b) increase in accruals by RM1.47 million or 62.4% due to salaries accrued for our staff.

11. FINANCIAL INFORMATION (cont'd)**11.3 LIQUIDITY AND CAPITAL RESOURCES****11.3.1 Working capital**

Our working capital is funded through cash generated from our operating activities, credit extended by our suppliers, various credit facilities extended to us by financial institutions as well as our existing cash and bank balances.

As at 31 December 2018, we have cash and cash equivalents of RM2.80 million. As at 31 December 2018, we have working capital of RM11.29 million (being the difference between current assets of RM25.86 million and current liabilities of RM14.57 million), demonstrating our Group's ability to meet our short term obligations.

Based on the pro forma consolidated statement of financial position of our Group as at 31 December 2018 (after the Internal Restructuring but before the Public Issue), our total equity attributable to the owners of the Company stands at RM20.81 million with a gearing level of 0.61 times. Our gearing level after the Internal Restructuring, Public Issue and utilisation of proceeds stands at 0.01 times.

Based on the pro forma consolidated statement of financial position of our Group as at 31 December 2018 (after the Internal Restructuring but before the Public Issue), our Group has total current assets of RM23.29 million and current liabilities of RM14.57 million i.e. we have RM8.72 million of net working capital.

After taking into consideration our working capital resources, banking facilities currently available to our Group, funding requirements for capital commitments and the estimated net proceeds from the Public Issue, our Board is of the view that we will have sufficient working capital for a period of 12 months from the date of this Prospectus.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. From our past experiences, most of our customers settle their outstanding balances within the credit period. Our finance personnel will 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.

11.3.2 Review of cash flow position**(a) Cash flow summary**

The following table sets out the summary of the combined statements of cash flows for the financial years under review, which have been prepared for illustrative purposes only based on the assumption that our Group's structure had been in existence throughout the financial years under review, but prior to the Public Issue and the utilisation of proceeds.

	Audited			
	FYE	FYE	FYE	FYE
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Net cash from/(used in) operating activities	2,752	5,702	2,831	13,772
Net cash from/(used in) investing activities	(3,889)	(276)	(1,164)	(9,322)
Net cash from/(used in) financing activities	(63)	(2,484)	(2,574)	(6,691)
Net increase/(decrease) in cash and cash equivalents	(1,200)	2,942	(907)	(2,241)

11. FINANCIAL INFORMATION (cont'd)

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Cash and cash equivalents at beginning of the year	3,832	3,006	6,059	5,061
Effect of exchange rate changes on the balance of cash held in foreign currencies	374	111	(91)	(20)
Cash and cash equivalents at end of the year	3,006	6,059	5,061	2,800

(b) Commentaries of cash flows movement**FYE 2015****Net cash from operating activities**

For FYE 2015, we generated net operating cash flow of RM2.75 million. We collected RM38.71 million from our customers which was partially offset by cash payments of RM35.96 million. Such cash payments were mainly for:

- (i) RM25.91 million paid to our trade suppliers;
- (ii) RM9.80 million paid for our operating expenses and salaries; and
- (iii) income tax paid of RM0.25 million.

Net cash used in investing activities

Net cash used in investing activities was RM3.89 million mainly due to the following:

- (i) acquisition of other investment, which relates to the investments in the portfolio of quoted shares listed on Main Market of Bursa Securities for a total amount of RM1.00 million;
- (ii) acquisition of property, plant and equipment comprising 1 property in Taman Pulai Utama, Johor used as our storage space (subsequently reclassified as investment property in FYE 2017) and 1 property Sunway Velocity, Kuala Lumpur for the total amount of RM0.80 million as well as purchase of motor vehicles and office equipment for the total amount of RM0.24 million; and
- (iii) acquisition of 3 units of investment properties in Johor Bahru, Johor for the total amount of RM2.30 million by i-Stone Technology.

Net cash used in financing activities

Net cash used in financing activities was RM0.06 million mainly due to the dividends paid of RM1.68 million to our shareholders, as well as repayment of hire purchase, bankers' acceptance and term loans totalling to RM0.49 million. This was partially offset by the drawdown of RM2.17 million in term loans pursuant to the acquisition of 3 investment properties during FYE 2015.

11. FINANCIAL INFORMATION (cont'd)**FYE 2016****Net cash from operating activities**

For FYE 2016, we generated net operating cash flow of RM5.70 million. We collected RM42.14 million from our customers, of which the total amount of RM9.62 million recorded as revenue during the fourth quarter of FYE 2015 was collected from our customers during the first quarter of FYE 2016. This was partially offset by cash payments of RM36.44 million, mainly for:

- (i) RM25.07 million paid to our trade suppliers;
- (ii) RM11.18 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM0.19 million.

Net cash used in investing activities

Net cash used in investing activities was RM0.28 million due to the following:

- (i) RM1.59 million related to the acquisition of 2 units of office space located at Menara MSC Cyberport, Johor Bahru;
- (ii) RM0.33 million related to the acquisition of the 60.0% equity interest in P.A. Metal (completed in July 2016); and
- (iii) RM0.19 million related to the acquisition of quoted securities,

which was offset with the following:

- (i) repayment of advances from our directors of RM0.15 million;
- (ii) withdrawal of pledged fixed deposits placed with a financial institution of RM0.19 million;
- (iii) proceeds on disposal of investments in the portfolio of quoted securities listed on Main Market of Bursa Securities of RM0.65 million;
- (iv) proceeds on disposal of a double storey shop office located at No. 8 & 8A, Jalan Pulai 25, Taman Pulai Utama, Johor Bahru, Johor for the disposal consideration of RM0.44 million as well as proceeds of disposal of 1 motor vehicle of RM0.11 million; and
- (v) rental income received of RM0.28 million generated from the rental of our investment properties mainly located in Johor Bahru and Pulau Pinang.

Net cash used in financing activities

Net cash used in financing activities was RM2.48 million mainly due to the dividends paid of RM2.43 million to our shareholders as well as repayment of hire purchase and term loans totalling to RM0.46 million.

This was partially offset by the receipt of advances from a Director of i-Stone Technology and P.A. Metal for the total amount of RM0.31 million for working capital purposes and purchases made on behalf of both companies.

11. FINANCIAL INFORMATION (cont'd)**FYE 2017****Net cash from operating activities**

For FYE 2017, we generated net operating cash flows of RM2.83 million. We collected RM54.94 million from our customers. Included in these collections were the amount collected from our trade receivables as at 31 December 2016 which stood at RM12.16 million. These trade receivables are from sales made during the fourth quarter of FYE 2016. We have collected most of these trade receivables during the first quarter of FYE 2017. These cash collections was partially offset by cash payments of RM52.11 million, mainly for:

- (i) RM36.13 million paid to our trade suppliers;
- (ii) RM15.45 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM0.53 million.

Net cash used in investing activities

For FYE 2017, we recorded net cash used in investing activities of RM1.16 million comprising mainly of the following:

- (i) subscription of preference shares in One Galaxy Capital of RM1.50 million; and
- (ii) acquisition of plant and equipment of RM0.42 million.

The above was offset with the following:

- (i) withdrawal of pledged redemption of fixed deposits placed with a financial institution of RM0.38 million; and
- (ii) rental income received of RM0.31 million generated from the rental of our investment properties mainly located in Johor Bahru and Pulau Pinang.

Net cash used in financing activities

The net cash used in financing activities of RM2.57 million in FYE 2017 was mainly due to the dividends paid of RM2.30 million to the Directors of our Group as well as repayment of hire purchase and term loans totalling to RM0.48 million.

FYE 2018**Net cash from operating activities**

For FYE 2018, we generated net operating cash flows of RM13.77 million. We collected RM74.68 million from our customers which was partially offset by cash payments of RM60.91 million. Such cash payments were mainly for:

- (i) RM40.18 million paid to our trade suppliers;
- (ii) RM19.66 million paid for our operating expenses and salaries; and
- (iii) Income tax paid of RM1.07 million.

11. FINANCIAL INFORMATION (cont'd)

Net cash used in investing activities

Net cash used in investing activities was RM9.32 million mainly due to the following:

- (i) acquisition of our New Factory and a piece of adjacent freehold land located at Jalan Persiaran Teknologi, Taman Teknologi Johor, Johor for the total amount of RM15.33 million;
- (ii) placement of fixed deposit of RM1.00 million with a financial institution; and
- (iii) purchase of new machineries and renovation cost of RM1.71 million incurred for our New Factory.

The above was partially off-set with the following:

- (i) redemption of preference shares previously subscribed in One Galaxy Capital of RM1.50 million;
- (ii) proceeds of RM0.62 million arising from the disposals of non-core subsidiaries/ associate pursuant to the Disposals by i-Stone Technology; and
- (iii) disposal of 8 units of properties located in Johor Bahru, Johor and Pulau Pinang, thus generating total cash proceeds of RM9.08 million.

Net cash used in financing activities

The net cash used in financing activities of RM6.69 million in FYE 2018 was mainly due to the following:

- (i) dividends paid of RM12.42 million to our shareholders (which was declared during FYE 2017 and FYE 2018); and
- (ii) repayment of hire purchase payables and term loans totalling to RM5.68 million.

However, the above was partially off-set with the drawdown of the term loan secured of RM12.00 million for the acquisition of our New Factory from Maybank Islamic Berhad.

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION (cont'd)**11.4 BORROWINGS**

We utilise credit facilities such as overdrafts and trade financing to partially finance our working capital. In addition, we also utilise term loans to finance the purchase of properties. We also use hire purchase to finance the purchase of plant and machinery and motor vehicles. All our bank borrowings are secured and interest-bearing. Our total outstanding borrowings as at 31 December 2018 stood at RM12.78 million, details of which are set out below.

Details	Purpose	Security	(1) Tenure	Interest rate % per annum	As at 31	
					December 2018	RM'000
Interest bearing short-term borrowings, payable within 1 year:						
Term loans	For purchase of New Property and 1 unit of office premise	The term loans are secured by: (a) Properties owned by our Group; and (b) Joint and several guarantees by certain of our Directors	Repayable within 12 months	4.70 – 4.80%	982	
Hire purchase payables	Purchase of motor vehicles	Secured against 7 motor vehicles used by our Group	3 to 5 years	4.46 – 5.26%	136	
				Sub-total	1,118	
Interest bearing long-term borrowings, payable after 1 year:						
Term loans	For purchase of New Property and 1 unit of office premise	The term loan are secured by: (a) Properties owned by our Group; and (b) Joint and several guarantees by certain of our Directors	Repayable within 240 months	4.70 – 4.80%	11,389	
Hire purchase payables	Purchase of motor vehicles	Secured against 7 motor vehicles used by our Group	1 to 5 years	4.46 – 5.26%	274	
				Sub-total	11,663	
				Total bank borrowings	12,781	

Pro forma gearing (times)

After Internal Restructuring but before Public Issue⁽²⁾

0.61

After Public Issue⁽³⁾

0.21

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

- (1) As at the date of the respective drawdown of each bank borrowings
- (2) Computed based on our pro forma shareholders' funds of RM20.81 million in the pro forma consolidated statements of financial position after the Internal Restructuring but before Public Issue
- (3) Computed based on our pro forma shareholders' funds of RM59.90 million in the pro forma consolidated statements of financial position after the Internal Restructuring, Public Issue and before utilisation of proceeds.

Our pro forma gearing ratio is expected to improve from 0.61 times (before Public Issue) to 0.01 times (after Public Issue and utilisation of proceeds) due to the increase in shareholders' fund arising from the issuance of new Shares under the Public Issue as well as partial repayment of our bank borrowings from proceeds of the Public Issue.

As at LPD, we do not have any bank 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 bank borrowings throughout FYE 2015 to 2018 and up to LPD.

As at LPD, neither our Group nor our subsidiaries are 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.

Over FYE 2015 to 2018, we have not experienced any claw back or reduction in the facilities limit granted to us by our financiers.

11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

From an accounting perspective, financial instruments may include fixed deposits with licensed banks, trade and other receivables, trade and other payables and borrowings as shown on our combined statements of financial position. These financial instruments are used in our ordinary course of business.

Our working capital is funded through cash generated from our operating activities, credit extended by our suppliers, various credit facilities extended to us by financial institutions as well as our existing cash and bank balances. Our interest on bank borrowings 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 (save for hire purchase which have fixed interest rates).

The principal usage of these cash resources are for working capital, purchases of raw materials, operating expenses as well as other expenses such as employee expenses, upkeep of manufacturing equipment and travelling expenses.

11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATIONS AND CONTINGENT LIABILITIES**(a) Material capital commitments**

As at LPD, there is no material commitment for capital expenditure contracted or known to be contracted by our Group which may have a material impact on our Group's financial position or business.

11. FINANCIAL INFORMATION (cont'd)**(b) Material litigations**

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and there are no 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.

(c) Contingent liabilities

There are no contingent liabilities 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.

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

11.7 KEY FINANCIAL RATIOS

The key financial ratios of our Group for the 4 FYEs 2015 to 2018 are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Trade receivables turnover (days) ⁽¹⁾	58	92	84	76
Trade payables turnover (days) ⁽²⁾	46	65	51	53
Inventory turnover (days) ⁽³⁾	14	19	21	48
Current ratio (times) ⁽⁴⁾	2.04	1.88	1.29	1.77
Gearing ratio (times) ⁽⁵⁾	0.48	0.39	0.43	0.55

Notes:

(1) Computed based on the following:

$$\frac{(\text{Opening trade receivables} + \text{closing trade receivables}) / 2}{\text{Revenue}} \times 365 \text{ days}$$

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Opening trade receivables	4,400	9,615	12,153	15,747
Closing trade receivables	9,615	12,153	15,747	12,218
Revenue	44,124	43,127	60,381	67,591
Average trade receivables turnover period (days)	58	92	84	76

11. FINANCIAL INFORMATION (cont'd)

- (2) Computed based on the following:

$$\frac{(\text{Opening trade payables} + \text{closing trade payables}) / 2}{\text{Purchases}} \times 365 \text{ days}$$

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Opening trade payables	2,542	5,137	5,518	5,960
Closing trade payables	5,137	5,518	5,960	7,166
Cost of sales	30,288	29,981	40,769	45,364
Average trade payable turnover period (days)	46	65	51	53

- (3) Computed based on the following:

$$\frac{(\text{Opening inventories} + \text{closing inventories}) / 2}{\text{Cost of sales}} \times 365 \text{ days}$$

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Opening inventory	584	1,784	1,329	3,355
Closing inventory	1,784	1,329	3,355	8,679
Cost of sales	30,288	29,981	40,769	45,364
Average inventory turnover period (days)	14	19	21	48

- (4) Computed based on current assets over current liabilities as at year end for each of the FYEs 2015 to 2018.
- (5) Computed based on the total borrowings over total equity as at year end for each of the FYEs 2015 to 2018.

[The rest of this page is intentionally left blank]

11. FINANCIAL INFORMATION (cont'd)**11.7.1 Trade receivables turnover**

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

	Within credit terms	Exceeding credit period by				Total as at 31 December 2018	
		1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days		More than 120 days
Trade receivables (RM'000)	10,867	150	908	10	112	171	12,218
Percentage of total trade receivables (%)	88.9	1.2	7.5	0.1	0.9	1.4	100.0
Subsequent collections up to LPD (RM'000)	10,066	127	908	10	51	101	11,263
Trade receivables net of subsequent collections (RM'000)	801	22	~	-	61	71	955
Percentage of trade receivables net of subsequent collection (%)	83.9	2.3	#	0.0	6.4	7.4	100.0

Notes:

- ~ Less than RM1,000
- # Less than 0.1%

The normal credit period offered by our Group in respect of our trade receivables is between 30 to 120 days from the date of invoice on a case-by-case basis by taking into consideration various factors such as our business relationship with customers and credit history of the customers while new customers are subject to our credit verification and assessment process. Other credit terms can sometimes be negotiated (such as for new customers or large orders) upon the request of our customer. Such terms would be assessed and approved on a case-by-case basis. All of our outstanding trade receivables are closely monitored by our key management personnel. As at 31 December 2018, our Group's trade receivables amount to RM12.22 million, of which RM1.35 million or 11.1% of our trade receivables exceeded the normal credit period. Subsequent to 31 December 2018 and up to LPD, we have collected RM11.26 million, representing 92.1% of the total trade receivables as at 31 December 2018.

Our trade receivables turnover period for the financial years under review was between 58 to 92 days. Most of our trade receivables as at the end of the financial years under review is within our normal credit period granted to our customers. The remaining trade receivables exceeding our normal credit period constitute less than 20.0% of our Group's overall trade receivables as at the end of each financial years under review. These trade receivables have exceeded our normal credit period as our customers have requested additional time for payments to our Group. However, the average trade receivables turnover days has increased during the financial years under review due to the longer credit period of up to 90 days being granted to Dyson Group of Companies and other major customers from FYE 2016 onwards.

11. FINANCIAL INFORMATION (cont'd)

Trade receivables turnover period increased from 58 days in FYE 2015 to 92 days in FYE 2016 as a result of longer credit period of up to 90 days being granted to our major customers during FYE 2016, as compared with the credit period granted of 60 days to most of our sales to our major customers during FYE 2015. The increase in credit period of up to 90 days granted to our major customers from FYE 2016 onwards was granted to fulfil our major customers' expectations on longer credit period granted from their suppliers.

For FYE 2017, trade receivables turnover period decreased from 92 days in FYE 2016 to 84 days mainly due to higher collection from our major customers in the fourth quarter of 2017.

For FYE 2018, we recorded trade receivables turnover period of 76 days mainly due to higher collection from our major customers.

After taking into consideration of the subsequent collections as at LPD of RM11.26 million, our Board is of the opinion that the remaining balances of RM0.96 million are recoverable as our Group maintains good relationship with all existing customers and our Group continues to have business relationship with these outstanding debtors, whilst we continuously follow up with them on the recoverability of the outstanding sums. Accordingly, no impairment has been made. However, our Group will continue review the customers' credit profile and provide for impairment on the outstanding amount if required.

For the financial years under review, our Group does not have any major disputes with our debtors for recovery of our trade debts. Our Group will assess the collectability of trade receivables on an individual customer basis and impairment will be made for those customers where recoverability is uncertain based on our past dealings with customers.

11.7.2 Trade payables turnover

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

	Within credit period	Exceeding credit period				Total as at 31 December 2018
		1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	
Trade payables (RM'000)	7,125	41	-	-	-	7,166
Percentage of total trade payables (%)	99.4	0.6	-	-	-	100.0
Subsequent payments up to LPD (RM'000)	7,125	41	-	-	-	7,166
Trade payables net of subsequent payments	-	-	-	-	-	-
Percentage of trade payables net of subsequent payments (%)	-	-	-	-	-	100.0

The normal credit terms granted by our trade creditors to our Group ranges from 30 to 90 days from the date of tax invoice.

For FYE 2018, we recorded trade payables turnover period of 53 days, increasing from 51 days during FYE 2017. As at 31 December 2018, RM7.13 million of our trade payables were within the credit period granted to us by our suppliers, representing 99.4% of the total trade payables of RM7.17 million. As at LPD, we have made subsequent payments of RM7.17 million, representing 100.0% of the total trade payable as at 31 December 2018. Our trade payables turnover period for the financial years under review was between 46 to 65 days, which is within our normal credit period granted by our suppliers. As at LPD, there are no disputes in respect of trade payables and no legal action has been initiated by our suppliers to demand for payment.

11. FINANCIAL INFORMATION (cont'd)**11.7.3 Inventories**

Our inventories comprise:

- (a) raw materials (i.e. computer peripherals, software, industrial computer and embedded systems, E&E components/instruments, precision parts and mechanical components, metal sheets, plates and precision parts as well as production consumables);
- (b) work-in-progress (specialised automation machines that is awaiting preliminary customer acceptance); and
- (c) finished goods (including statistical analysis software, embedded products and wireless communication devices).

A summary of our inventories for the past FYE 2015 to FYE 2017 and FYE 2018 are set out below:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Raw materials	1,368	135	130	554
Work-in-progress	-	788	2,785	7,385
Finished goods	416	406	440	740
Total	1,784	1,329	3,355	8,679
Average inventory turnover period (days)	14	19	21	48

Our inventory turnover period for FYE 2015 to FYE 2018 is within the range of 14 days to 48 days. The higher inventory turnover period for FYE 2018 was mainly due to the increase in work-in-progress comprising various specialised automation machines. This is in line with the increase in sales volumes of various customised specialised automation machines received from Dyson Group of Companies and several contract manufacturers.

Save for the wastage of raw materials by RM0.24 million belonging to P.A. Metal as a result of certain raw materials were not suitable (in terms of specification of the metal sheets) for the usage of our metal sheet fabrication activities during FYE 2016, we have not incurred any other write-off in the inventories and raw materials during the financial years under review.

11.7.4 Current ratio

Our current ratio, current assets and current liabilities as at FYE 2015 to FYE 2018 are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Current assets	16,567	21,156	28,261	25,856
Current liabilities	8,103	11,266	21,936	14,570
Net current assets	8,464	9,890	6,325	11,286
Current ratio (times)	2.04	1.88	1.29	1.77

11. FINANCIAL INFORMATION (cont'd)

Our Group's current ratio remains healthy throughout the financial years under review, ranging from 1.29 to 2.04 times. Our Group is capable of meeting our current obligations as our current assets such as inventories, cash and bank balances as well as trade and other receivables can be readily converted into cash together with our cash at bank to meet any outstanding trade financing facilities, trade payables and other short term liabilities.

For FYE 2016, our Group's current ratio declined slightly to 1.88 times. The analysis of the movement in our current ratio is as follows:

- (a) we recorded an increase in overall current liabilities position by RM3.16 million or 39.0% due to the increase in overall other payables by 92.5% or RM2.44 million. This was mainly due to increase in other payables resulting from the deposits received from our major customers for orders of new specialised automation machines of RM1.10 million, increase in accrued bonuses by RM0.51 million and increase in sundry payables (such as marketing/consultation fees as well as Goods and Services Tax payable in Singapore and Malaysia) by RM0.41 million.
- (b) this was partly offset by the increase in our current assets position by RM4.59 million or 27.7% from RM16.57 million as at 31 December 2015 to RM21.16 million as at 31 December 2016. This was mainly due to increase in our trade receivables of RM2.54 million from the sales of new specialised automation machines during the fourth quarter of FYE 2016 and deposits received from our major customers of RM2.02 million for the purchase of new specialised automation machines.

For FYE 2017, our Group's current ratio further declined to 1.29 times due to the following reasons:

- (a) we recorded an increase in overall current liabilities position due to the dividends payable of RM9.52 million by i-Stone Technology and Bizit Systems Singapore (which were subsequently paid during FYE 2018) which resulted in higher current liabilities position during FYE 2017 as well as increase in trade payables by RM0.44 million due to purchase of additional raw materials for our manufacturing automation segment.
- (b) this was partly offset by the increase in our current assets position by RM7.11 million or 33.6% from RM21.16 million as at 31 December 2016 to RM28.26 million as at 31 December 2017, the reasons of which are set out in Section 11.2.3(a).

Our Group's current ratio subsequently improved to 1.77 times during FYE 2018 due to the following reasons:

- (a) decrease in overall current liabilities level from RM21.94 million as at 31 December 2017 to RM14.57 million as at 31 December 2018 mainly due to the settlement of the dividends payable of RM9.52 million declared in FYE 2017; and
- (b) despite the total payment of dividends declared in FYE 2017 and FYE 2018 amounting to RM12.42 million during FYE 2018, the current assets position as at 31 December 2018 remained relatively stable as compared to 31 December 2017, recording only a decrease of RM2.41 million. This was mainly due to our Group recording cash inflow from operating activities of RM13.77 million.

11. FINANCIAL INFORMATION (cont'd)**11.7.5 Gearing ratio**

Our total borrowings and gearing ratio for the financial years under review is as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Loans and borrowings	6,215	6,104	5,741	12,371
Hire purchase payables	322	260	308	410
Total borrowings	6,537	6,364	6,049	12,781
Total equity (RM'000)	13,565	16,197	14,038	23,380
Gearing ratio (times)	0.48	0.39	0.43	0.55

Our Group's total borrowings ranges between RM6.05 million to RM12.78 million for the 4 FYEs 2015 to 2018. Our Group's gearing ratio ranges from 0.39 times to 0.55 times over the financial years under review. Overall, our gearing ratio remained healthy, below 1.00 times during the financial years under review.

11.8 SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL POSITION AND RESULTS OF OPERATIONS

In addition to the risk factors as set out in Section 9 and the trends set out in Section 11.9, some of the following factors that may have an impact to our operations and financial results are as follows:

(a) Impact of foreign exchange rates

The financial statements of our subsidiaries in Singapore are denominated in SGD. As such, any future significant depreciation of SGD against RM may have a material negative impact on our Group's consolidated financial statements which is reported in RM, as we are based in Malaysia.

Our Group is subject to foreign exchange rate fluctuations through our foreign denominated sales in USD and SGD. As such, fluctuations in foreign exchange rate between RM, SGD and USD may have an impact on our reported income as they are required to be stated in RM in our combined and consolidated financial statements. Any unfavourable movement in the SGD and USD against the RM may adversely affect our profitability.

The following is the breakdown of our sales based on currency denomination throughout the financial years under review:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	29,789	67.5	31,726	73.6	37,393	61.9	51,483	76.2
USD	5,067	11.5	3,320	7.7	13,817	22.9	11,008	16.3
SGD	9,268	21.0	8,081	18.7	9,171	15.2	5,100	7.5
Total	44,124	100.0	43,127	100.0	60,381	100.0	67,591	100.0

11. FINANCIAL INFORMATION (cont'd)

Our purchases are mainly denominated in RM, USD and SGD in the following percentages, as tabulated below:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	11,043	41.4	11,672	46.7	17,613	52.5	14,684	43.9
USD	7,576	28.4	6,632	26.5	6,121	18.3	11,300	33.8
SGD	7,860	29.5	6,544	26.2	9,359	27.9	5,370	16.0
Others ⁽¹⁾	210	0.7	138	0.6	427	1.3	2,124	6.3
Total	26,689	100.0	24,986	100.0	33,520	100.0	33,478	100.0

Note:

- (1) Other currencies include Renminbi, Pounds Sterling, Australian Dollars, Taiwanese Dollar, Japanese Yen and Euro

Our realised and unrealised gain/(loss) on foreign exchange for FYE 2015 to 2018 are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Realised/Unrealised loss on foreign exchange	(360)	(269)	(443)	(769)
Realised/Unrealised gain on foreign exchange	155	123	141	123
Net loss on foreign exchange	(205)	(146)	(302)	(646)

Our Group does not have any foreign exchange policy in place. However, all transactions in foreign currencies are converted into RM at the transaction dates. The assets and liabilities in foreign currencies are also converted into RM at the end of each reporting period. All differences arising from the settlement of foreign currency transactions and from the translation of foreign currency are included in profit or loss in the period in which they arise.

(b) 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 2017 and FYE 2018 are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Interest coverage ratio (times) ⁽¹⁾	21.48	22.68	34.85	43.29

Note:

- (1) Computed based on EBIT over finance costs for the financial years under review

11. FINANCIAL INFORMATION (cont'd)

Our interest coverage ratio of between 21.48 to 43.29 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 increase from 34.85 times in FYE 2017 to 43.29 times in FYE 2018 due to the 26.9% increase in EBIT (from RM9.65 million in FYE 2017 to RM12.25 million in FYE 2018) mainly due higher revenue levels generated 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 and trading products, which may have an adverse effect on the performance of our Group.

(c) Impact of inflation rates

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. However, any significant increase in future inflation may adversely affect our Group's operations and performance insofar as we are unable to pass on the higher costs to our customers through increase in selling prices.

(d) Demand and supply conditions

Our Group's revenue and profit are dependent on the demand of our products, solutions and services and supply of raw materials. The demand and supply conditions of the specialised machinery and equipment industry in Malaysia, as set out in the Industry Overview in Section 8.

(e) Government/Economic/Fiscal/Monetary policies

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years under review. However, 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.

11.8.1 Significant changes on financial position

There are no significant changes that have occurred, which may have a material effect on the financial position and results of our Group subsequent to FYE 2018 up to the LPD.

11.9 TREND INFORMATION

11.9.1 Business and financial prospects

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

- (a) During FYE 2015 to FYE 2018, contribution from our manufacturing automation segment was 81.8%, 80.0%, 81.9% and 83.6% of our Group's total revenue. During FYE 2015 to FYE 2018, between 61.7% and 78.2% of our Group's total revenue was derived from Malaysia, with the balance mainly from Singapore, Philippines, Indonesia and Taiwan. We expect such revenue segmentation to continue in the future;
- (b) During FYE 2015 to FYE 2018, our Group's cost of sales is mainly attributable to the manufacturing automation segment of our Group, representing 81.6%, 79.9%, 83.4% and 84.0%, while the remaining of our cost of sales was incurred from the

11. FINANCIAL INFORMATION (cont'd)

complementary products and services to the manufacturing automation segment, in line with our revenue segmentation.

Moving forward, our cost of sales is expected to fluctuate in tandem with our revenue segmentation. Our cost of sales is dependent on amongst others, the availability and price fluctuation of raw materials and direct labour costs; and

- (c) We achieved a GP margin of 31.4%, 30.5%, 32.5% and 32.9% for FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively. We hope to maintain our GP margin within the same range in the future. This would depend on, amongst others, our continued ability to manage our costs efficiently and our revenue segmentation in the future.

As at 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, Section 7 and Section 9;
- (b) known trends, demands, commitments, events or uncertainties that have had or that are likely to have a material impact on our liquidity or capital resources, other than those discussed in this section, Section 7 and Section 9;
- (c) material capital commitments for capital expenditure as set out in Section 11.6; and
- (d) 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 Section 9.

Our Board is optimistic about the future prospects of our Group given the positive outlook of the Specialised Machinery and Equipment Industry in Malaysia and E&E industry as set out in the Industry Overview in Section 8, our Group's competitive positions as set out in Section 7.5 and our business strategies as set out in Section 7.12.

11.9.2 Order book

Due to the nature of our business, we do not maintain an order book. Our revenue is generated when we deliver our products based on the purchase orders received.

Our unbilled purchase orders as at LPD amounts to RM25.79 million, details as follows:

Segment	RM'000
Manufacturing automation	24,774
Distribution of manufacturing automation hardware and software	1,020
Total	25,794

These purchase orders are expected to be billed upon delivery progressively over the next 2 to 5 months.

11. FINANCIAL INFORMATION (cont'd)**11.10 DIVIDEND POLICY**

We have not formulated a dividend policy or pay-out ratio. We may do so in the future. It is our intention to pay dividends to shareholders in the future while retaining adequate reserves for our future growth. As our Company is an investment holding company, our 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 and relevant laws, which is applicable to all Malaysian and Singaporean companies, and consent from the financiers of our Group as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiaries to transfer funds in the form of cash dividends, loans or advances to us.

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

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Dividends declared ⁽¹⁾	1,682	2,434	11,824	2,500
Dividends paid ⁽²⁾	1,682	2,434	2,304	⁽³⁾ 12,420

Notes:

- (1) Dividends declared by our Group but exclude dividends declared by our associate company.
- (2) The dividends declared for FYE 2017 was only paid during FYE 2018 as this allowed our Group to enhance our funding flexibility by having additional cash available to our Group to capitalise on potential business opportunities
- (3) During FYE 2017, our 40.0% associate company, i-Stone Engineering had declared dividends of RM0.40 million, which was paid during FYE 2018. i-Stone Engineering only became the subsidiary of i-Stone Technology on 1 January 2018. As i-Stone Engineering was still classified as our associate company during FYE 2017, our Group's dividends declared during FYE 2017 of RM11.824 million does not include the dividends declared by i-Stone Engineering of RM0.40 million.

The dividend paid during FYE 2018 includes the portion of dividends paid by i-Stone Engineering to i-Stone Technology of RM0.16 million and its 60.0% other shareholders in FYE 2017 (namely Tai Wai Chai and Siow Kim Wee) of RM0.24 million. The i-Stone Technology's portion of the dividends of RM0.16 million is classified as dividends received under Cash flow from investing activities in our financial statements

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.

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 Group's financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board.

11. FINANCIAL INFORMATION (cont'd)

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.

11.11 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 30 April 2019 and after adjusting for the effects of the Acquisition of i-Stone Technology and Public Issue including the utilisation of proceeds from the Public Issue.

	i-Stone	(I)	(II)	(III)
	As at	⁽³⁾After Acquisition	After (I) and	After (II) and
	30 April	of i-Stone	Public Issue	utilisation of
	2019	Technology	Proceeds	proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(1,371)	20,715	59,802	56,302
Total capitalisation	(1,371)	20,715	59,802	56,302
Indebtedness⁽¹⁾				
<i>Current</i>				
Short term borrowings	-	928	928	282
Bank overdrafts	-	4,209	4,209	2,429
Total current	-	5,137	5,137	2,711
<i>Non-current</i>				
Long term borrowings	-	12,932	12,932	1,876
Total non-current	-	12,932	12,932	1,876
Total indebtedness	-	18,069	18,069	4,587
Total capitalisation and indebtedness	(1,371)	38,784	77,871	60,889
Gearing ratio (times) ⁽²⁾	-	0.87	0.30	0.08

Notes:

- (1) All of our indebtedness are secured
- (2) Calculated based on the total indebtedness divided by the total capitalisation
- (3) Upon completion of Acquisition of i-Stone Technology

[The rest of this page is intentionally left blank]

12. ACCOUNTANTS' REPORT

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**



Date: 29 May 2019

The Board of Directors
i-STONE GROUP BERHAD
12-2, Jalan Persiaran Teknologi
Taman Teknologi Johor
81400 Senai
Johor Darul Ta'zim
Malaysia

Dear Sirs

REPORT ON THE HISTORICAL FINANCIAL INFORMATION CONTAINED IN THE ACCOUNTANTS' REPORT OF i-STONE GROUP BERHAD

Opinion

We have audited the historical financial information contained in the Accountants' Report of i-Stone Group Berhad ("i-Stone" or "the Company") and its subsidiaries (the "Group"), which comprises the combined statements of financial position as at 31 December 2015, 2016, 2017 and 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 each of the financial years ended 31 December 2015, 2016, 2017, and 2018 as set out on pages 4 to 16 and a summary of significant accounting policies and other explanatory information, as set out in Sections 6 to 8 of the Accountants' Report.

This historical financial information has been prepared for inclusion in the prospectus of i-Stone Group Berhad ("Prospectus") in connection with the initial public offering and listing of and quotation for the enlarged share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad. This report is given for the purposes of complying with the *Prospectus Guidelines-Equity* issued by the Securities Commission Malaysia (the "Guidelines") and for no other purpose.

In our opinion, the historical financial information contained in the Accountants' Report gives a true and fair view of the financial position of the Group as at 31 December 2015, 2016, 2017 and 2018 and of their financial performance and their cash flows for the financial years ended 31 December 2015, 2016, 2017 and 2018 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 ("ISAs"). 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 for our opinion.

ECOVIS MALAYSIA PLT (F.K.A. ECOVIS AHL PLT) (LLP0003185-LCA) & (AF 001825) Chartered Accountants, No.54, Jalan Kempas Utama 2/2, Taman Kempas Utama, 81200 Johor Bahru, Johor Darul Ta'zim, Malaysia Phone:+607 562 9000 Fax:+607 562 9090 E-Mail: johor@ecovis.com.my

A member of ECOVIS International, a network of tax advisors, accountants, auditors and lawyers, operating in more than 60 countries across 6 continents.

ECOVIS International is a Swiss association. Each Ecovis Member Firm is an independent legal entity in its own country and is only liable for its own acts or omissions, not those of any other entity. ECOVIS MALAYSIA PLT is a Malaysia Member Firm of ECOVIS International.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

**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.

Responsibility of the Directors for the Financial Information

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

In preparing the historical financial information of the Group, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Reporting Accountants' Responsibility for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group as a whole that free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISAs 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 basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (a) identify and assess the risks of material misstatement of the combined financial statements 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.
- (b) 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.
- (c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) conclude on the appropriateness of 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 statements 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.

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

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**



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

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
(cont'd)

- (e) evaluate the overall presentation, structure and content of the financial statements of the Group, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

This report is made solely to the Directors of the Company for inclusion in the Prospectus. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink that reads "Ecovis".

ECOVIS MALAYSIA PLT
AF 001825
Chartered Accountants

Johor Bahru

A handwritten signature in black ink that reads "KHOR KENG LIEH".

KHOR KENG LIEH
02733/07/2019 J
Chartered Accountant

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****COMBINED STATEMENTS OF FINANCIAL POSITION**

Section	← Audited →				
	2015 RM	2016 RM	2017 RM	2018 RM	
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	8.1	2,968,267	4,658,433	4,205,235	23,088,346
Investment properties	8.2	7,454,954	6,925,292	6,538,490	289,975
Investment in associate	8.4	302,932	382,046	466,641	-
Other investments	8.5	631,491	280,420	1,779,900	-
Goodwill on consolidation	8.6	-	4,503	4,503	855,802
		<u>11,357,644</u>	<u>12,250,694</u>	<u>12,994,769</u>	<u>24,234,123</u>
CURRENT ASSETS					
Inventories	8.7	1,783,647	1,328,692	3,355,057	8,678,805
Trade receivables	8.8	9,614,598	12,152,575	15,747,357	12,217,887
Other receivables	8.8	1,587,010	1,234,254	3,351,118	629,417
Current tax assets		-	-	-	530,180
Cash and cash equivalents	8.9	3,581,540	6,439,833	5,061,536	3,800,237
		<u>16,566,795</u>	<u>21,155,354</u>	<u>27,515,068</u>	<u>25,856,526</u>
Assets held for sale	8.10	-	-	745,968	-
TOTAL CURRENT ASSETS		<u>16,566,795</u>	<u>21,155,354</u>	<u>28,261,036</u>	<u>25,856,526</u>
TOTAL ASSETS		<u>27,924,439</u>	<u>33,406,048</u>	<u>41,255,805</u>	<u>50,090,649</u>
EQUITY AND LIABILITIES					
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Share capital	8.11	1,495,510	1,495,510	1,500,310	1,499,629
Retained profits		9,090,823	11,403,725	10,475,881	20,016,346
Reserves	8.12	2,846,888	2,935,292	1,372,156	579,719
		<u>13,433,221</u>	<u>15,834,527</u>	<u>13,348,347</u>	<u>22,095,694</u>
Non-controlling interests		131,081	362,234	690,277	1,283,878
TOTAL EQUITY		<u>13,564,302</u>	<u>16,196,761</u>	<u>14,038,624</u>	<u>23,379,572</u>

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

Section	← Audited →				
	2015 RM	2016 RM	2017 RM	2018 RM	
NON-CURRENT LIABILITIES					
Hire purchase payables	8.13	228,659	167,368	177,487	273,795
Loan and borrowings	8.14	6,025,130	5,758,402	5,085,708	11,389,203
Deferred tax liabilities	8.15	2,885	17,497	17,497	477,247
		<u>6,256,674</u>	<u>5,943,267</u>	<u>5,280,692</u>	<u>12,140,245</u>
CURRENT LIABILITIES					
Trade payables	8.16	5,136,899	5,518,008	5,959,901	7,165,666
Other payables	8.16	2,639,113	5,079,549	5,181,519	6,286,477
Dividend payables	8.16	-	-	9,519,600	-
Hire purchase payables	8.13	92,885	93,082	130,622	136,581
Loan and borrowings	8.14	190,424	346,259	655,133	982,108
Current tax liabilities		44,142	229,122	489,714	-
		<u>8,103,463</u>	<u>11,266,020</u>	<u>21,936,489</u>	<u>14,570,832</u>
TOTAL LIABILITIES		<u>14,360,137</u>	<u>17,209,287</u>	<u>27,217,181</u>	<u>26,711,077</u>
TOTAL EQUITY AND LIABILITIES		<u>27,924,439</u>	<u>33,406,048</u>	<u>41,255,805</u>	<u>50,090,649</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Section	←———— Audited —————→			
		2015 RM	2016 RM	2017 RM	2018 RM
Revenue	8.17	44,124,245	43,127,282	60,381,326	67,591,540
Cost of sales		(30,287,520)	(29,981,268)	(40,769,005)	(45,364,491)
Gross profit		13,836,725	13,146,014	19,612,321	22,227,049
Other income	8.18	494,057	755,694	625,407	2,678,152
Distribution expenses		(308,212)	(1,014,913)	(861,433)	(614,885)
Administrative expenses		(7,665,395)	(7,547,323)	(9,796,583)	(10,919,923)
Other expenses		(2,028,307)	(196,322)	(311,850)	(1,115,506)
Profit from operations		4,328,868	5,143,150	9,267,862	12,254,887
Finance costs	8.19	(216,698)	(235,408)	(277,464)	(283,387)
Share of results of an associate		339,262	201,707	399,395	-
Profit before tax	8.20	4,451,432	5,109,449	9,389,793	11,971,500
Tax expense	8.21	(359,406)	(402,188)	(839,738)	(501,505)
Profit for the year		4,092,026	4,707,261	8,550,055	11,469,995
Other comprehensive income, net of tax:					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Foreign currency translation differences for foreign operations		517,128	95,623	(89,472)	9,039
Total comprehensive income for the year		4,609,154	4,802,884	8,460,583	11,479,034

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(CONT'D)**

Section	← Audited →			
	2015 RM	2016 RM	2017 RM	2018 RM
Profit attributable to:				
Owners of the Company	4,010,209	4,747,125	8,215,676	11,247,630
Non-controlling interests	81,817	(39,864)	334,379	222,365
	<u>4,092,026</u>	<u>4,707,261</u>	<u>8,550,055</u>	<u>11,469,995</u>
Total comprehensive income attributable to:				
Owners of the Company	4,495,317	4,835,529	8,132,540	11,255,193
Non-controlling interests	113,837	(32,645)	328,043	223,841
	<u>4,609,154</u>	<u>4,802,884</u>	<u>8,460,583</u>	<u>11,479,034</u>
Basic/diluted earnings per ordinary share (sen)	8.22	<u>0.41</u>	<u>0.49</u>	<u>0.84</u>
		<u>1.15</u>		

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY

Group	Section	Non-distributable				Distributable			Total equity RM
		Ordinary share capital RM	Non- cumulative redeemable preference share capital RM	Preference share reserve RM	Translation reserve RM	Retained profits RM	Total attributable to owners RM	Non- controlling interest RM	
At 1 January 2015		1,495,310	100	1,680,000	81,780	6,762,750	10,019,940	17,244	10,037,184
Profit for the year		-	-	-	-	4,010,209	4,010,209	81,817	4,092,026
<u>Other comprehensive income:</u>									
Foreign currency translation differences for foreign operations		-	-	-	485,108	-	485,108	32,020	517,128
Total comprehensive income for the year		-	-	-	485,108	4,010,209	4,495,317	113,837	4,609,154
<i>Contributions by and distributions to common controlling shareholders</i>									
- Issuance of preference share		-	100	600,000	-	-	600,100	-	600,100
- Dividends	8.23	-	-	-	-	(1,682,136)	(1,682,136)	-	(1,682,136)
Total transactions with common controlling shareholders		-	100	600,000	-	(1,682,136)	(1,082,036)	-	(1,082,036)
At 31 December 2015		1,495,310	200	2,280,000	566,888	9,090,823	13,433,221	131,081	13,564,302

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Group	Section	Non-distributable			Distributable			Total equity RM	
		Ordinary share capital RM	Non- cumulative redeemable preference share capital RM	Preference share reserve RM	Translation reserve RM	Retained profits RM	Total attributable to owners RM		Non- controlling interest RM
At 1 January 2016		1,495,310	200	2,280,000	566,888	9,090,823	13,433,221	131,081	13,564,302
Profit for the year		-	-	-	-	4,747,125	4,747,125	(39,864)	4,707,261
Other comprehensive income:									
Foreign currency translation differences for foreign operations		-	-	-	88,404	-	88,404	7,219	95,623
Total comprehensive income for the year		-	-	-	88,404	4,747,125	4,835,529	(32,645)	4,802,884
<i>Contributions by and distributions to common controlling shareholders</i>									
- Dividends	8.23	-	-	-	-	(2,434,223)	(2,434,223)	-	(2,434,223)
- Non-controlling interests arising from business combination		-	-	-	-	-	-	263,798	263,798
Total transactions with common controlling shareholders		-	-	-	-	(2,434,223)	(2,434,223)	263,798	(2,170,425)
At 31 December 2016		1,495,310	200	2,280,000	655,292	11,403,725	15,834,527	362,234	16,196,761

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Group	Section	Non-distributable				Distributable			Total equity RM
		Ordinary share capital RM	Non- cumulative redeemable preference share capital RM	Preference share reserve RM	Translation reserve RM	Retained profits RM	Total attributable to owners RM	Non- controlling interest RM	
At 1 January 2017		1,495,310	200	2,280,000	655,292	11,403,725	15,834,527	362,234	16,196,761
Profit for the year		-	-	-	-	8,215,676	8,215,676	334,379	8,550,055
<u>Other comprehensive income:</u>									
Foreign currency translation differences for foreign operations		-	-	-	(83,136)	-	(83,136)	(6,336)	(89,472)
Total comprehensive income for the year		-	-	-	(83,136)	8,215,676	8,132,540	328,043	8,460,583
<i>Contributions by and distributions to common controlling shareholders</i>									
- Issuance of preference share		-	10,000	1,200,000	-	-	1,210,000	-	1,210,000
- Redemption of preference share		-	(5,200)	(2,680,000)	-	2,680,000	(5,200)	-	(5,200)
- Dividends	8.23	-	-	-	-	(11,823,520)	(11,823,520)	-	(11,823,520)
Total transactions with common controlling shareholders		-	4,800	(1,480,000)	-	(9,143,520)	(10,618,720)	-	(10,618,720)
At 31 December 2017		1,495,310	5,000	800,000	572,156	10,475,881	13,348,347	690,277	14,038,624

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)

Group	Section	Non-cumulative			Distributable			Total equity RM
		Ordinary share capital RM	Preference share reserve RM	Translation reserve RM	Retained profits RM	Total attributable to owners RM	Non- controlling interest RM	
At 1 January 2018		1,495,310	800,000	572,156	10,475,881	13,348,347	690,277	14,038,624
Profit for the year		-	-	-	11,247,630	11,247,630	222,365	11,469,995
Other comprehensive income: Foreign currency translation differences for foreign operations		-	-	7,563	-	7,563	1,476	9,039
Total comprehensive income for the year		-	-	7,563	11,247,630	11,255,193	223,841	11,479,034
<i>Contributions by and distributions to common controlling shareholders</i>								
- Issuance of ordinary shares		4,319	-	-	-	4,319	-	4,319
- Redemption of preference share		-	(800,000)	-	800,000	(5,000)	-	(5,000)
- Dividends	8.23	-	-	-	(2,500,000)	(2,500,000)	-	(2,500,000)
- Non-controlling interests arising from business combination	8.28	-	(800,000)	-	(1,700,000)	(2,500,681)	-	(2,500,681)
- Changes in ownership interests in a subsidiary	8.28	-	-	-	(7,165)	(7,165)	385,158	385,158
Total transactions with common controlling shareholders		4,319	(800,000)	-	(1,707,165)	(2,507,846)	369,760	(2,138,086)
At 31 December 2018		1,499,629	-	579,719	20,016,346	22,095,694	1,283,878	23,379,572

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS

	Audited			
	2015	2016	2017	2018
	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	4,451,432	5,109,449	9,389,793	11,971,500
Adjustments for: -				
Bad debts written off	-	-	1,855	-
Depreciation of property, plant and equipment	402,295	538,140	564,681	820,797
Depreciation of investment properties	112,556	130,575	105,421	38,470
Fair value adjustment on other investments	20,065	-	-	-
Impairment loss on other investments	632,230	-	-	-
Impairment loss on goodwill	1,212,163	-	-	-
Interest expenses	216,698	235,408	277,464	283,387
Loss/(Gain) on disposal of other investments	18,999	(34,267)	-	(319,718)
Loss on disposal of investment property	-	-	-	31,465
Loss on disposal of property, plant and equipment	-	623	-	-
Share of results of an associate	(339,262)	(201,707)	(399,395)	-
Share based payment expenses	600,000	-	1,200,000	-
Property, plant and equipment written off	-	2,404	1,432	229,838
Provision for warranty	-	-	-	23,845
Rental income	(117,235)	(275,975)	(314,164)	(109,236)
Unrealised loss on foreign exchange	88,946	87,820	4,012	53,833

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D)				
Dividend income	(4,728)	(6,300)	(75,000)	-
Interest income	(5,910)	(14,895)	(14,163)	(3,287)
Unrealised gain on foreign exchange	(18,136)	(68,059)	-	(21,398)
Gain on disposal of property, plant and equipment	-	(124,417)	-	(1,094,120)
Gain on disposal of assets held for sale	-	-	-	(477,574)
Gain on remeasurement of associate stake	-	-	-	(533,359)
Operating profit before working capital changes	7,270,113	5,378,799	10,741,936	10,894,443
Decrease/(Increase) in working capital				
Change in inventories	(1,200,103)	769,373	(2,026,364)	(5,323,748)
Change in trade and other receivables	(5,663,961)	(1,814,595)	(5,460,501)	7,532,752
Change in trade and other payables	2,799,323	1,771,646	343,340	1,944,083
Cash generated from operations	3,205,372	6,105,223	3,598,411	15,047,530
Interest paid	(216,698)	(235,408)	(277,464)	(212,441)
Interest received	5,910	14,895	14,163	3,287
Tax paid	(250,926)	(186,341)	(526,095)	(1,066,946)
Tax refunded	9,367	3,271	21,748	-
Net cash from operating activities	2,753,025	5,701,640	2,830,763	13,771,430

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of other investments	(1,001,600)	(261,000)	(10)	-
Acquisition of non-controlling interests (Section 8.28)	-	-	-	(22,563)
Acquisition of subsidiaries, net of cash acquired (Section 8.28)	-	(327,981)	-	(200,353)
Repayment from/(Advances to) directors	(150,000)	150,000	(18,000)	18,000
Dividend received	84,728	86,300	80,000	235,000
(Placement)/Withdrawal of pledged fixed deposit	(250,011)	194,741	380,330	(1,000,000)
Rental received	117,235	275,975	314,164	109,236
Proceeds from disposal of other investments	648,623	646,338	-	619,100
Proceeds from disposal of assets held for sale	-	-	-	1,223,542
Proceeds from disposal of property, plant and equipment	-	553,101	-	2,991,597
Proceeds from disposal of investment properties	-	-	-	5,146,459
Purchase of property, plant and equipment (Section 8.1)	(1,037,277)	(692,535)	(420,566)	(19,941,257)
Purchase of investment properties	(2,300,800)	(900,923)	-	-
(Purchase)/Redemption of preference shares in other investments	-	-	(1,499,470)	1,499,470
Net cash used in investing activities	(3,889,102)	(275,984)	(1,163,552)	(9,321,769)

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares to non-controlling interest	-	14,800	-	-
Proceeds from issuance of ordinary shares	-	-	-	4,319
Proceeds from issuance of preference shares	100	-	10,000	-
Redemption of preference shares	-	-	(5,200)	(5,000)
(Advances to)/Repayment from directors	(65,945)	310,912	200,522	(587,528)
Dividend paid	(1,682,136)	(2,434,223)	(2,303,920)	(12,419,600)
Repayment of hire purchase payables	(108,286)	(121,094)	(112,341)	(242,253)
Repayment of short-term borrowings	(163,000)	-	-	-
Repayment of term loans	(215,120)	(335,499)	(363,820)	(5,440,476)
Drawdown of term loans	2,170,844	81,200	-	12,000,000
Net cash used in financing activities	(63,543)	(2,483,904)	(2,574,759)	(6,690,538)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS				
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(1,199,620)	2,941,752	(907,548)	(2,240,877)
Effect of exchange rate changes on the balance of cash held in foreign currencies	3,831,936	3,006,469	6,059,503	5,061,536
CASH AND CASH EQUIVALENTS AT END OF YEAR (Section 8.9)	374,153	111,282	(90,419)	(20,422)
	3,006,469	6,059,503	5,061,536	2,800,237

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****ABBREVIATIONS**

Unless the context otherwise requires or the terms is defined otherwise, the following abbreviation shall apply throughout this report:

Act 2016	Companies Act, 2016
Bursa Securities	Bursa Malaysia Securities Berhad (635998-W)
Bizit Systems Malaysia	Bizit Systems (M) Sdn. Bhd. (770777-P)
Bizit Systems Singapore	Bizit Systems and Solutions Pte. Ltd. (201112841R)
Director(s)	Either an executive director or a non-executive director of the Company within the meaning of Section 2 of the Act 2016
FYE	Financial year(s) ended 31 December
IFRS	International Financial Reporting Standards
i-Stone or Company	i-Stone Group Berhad (1273151-K)
i-Stone Engineering	i-Stone Engineering Sdn. Bhd. (814843-P)
i-Stone Group or Group	i-Stone and its subsidiaries, collectively
i-Stone International	i-Stone International Pte. Ltd. (201305528C)
i-Stone Solutions	i-Stone Solutions Sdn. Bhd. (1046947-U)
i-Stone Systems	i-Stone Systems Sdn. Bhd. (1167928-K)
i-Stone Technology	i-Stone Technology Sdn. Bhd. (760967-W)
LPD	23 May 2019, being the latest practicable date for ascertaining certain information contained in this Prospectus
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
MPERS	Malaysian Private Entities Reporting Standard
NCRPS	Non-cumulative redeemable preference shares
Offeror(s)	Tee Sook Sing, Chan Kok San and Chin Chung Lek, who are undertaking the Offer for Sale

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****ABBREVIATIONS (CONT'D)**

One Galaxy Capital	One Galaxy Capital Sdn. Bhd. (1212674-U) <i>(formerly known as i-Stone Capital Sdn. Bhd.)</i>
One Galaxy Equity	One Galaxy Equity Sdn. Bhd. (1040949-W) <i>(formerly known as i-Stone Electronics Sdn. Bhd.)</i>
One Gourmet	One Gourmet Sdn. Bhd. (1228320-H) <i>(formerly known as i-Stone Gourmet Sdn. Bhd.)</i>
One Galaxy Systems	One Galaxy Systems Sdn. Bhd. (842097-W) <i>(formerly known as Bizit Systems and Solutions Sdn. Bhd.)</i>
OUE	One United Equity Sdn. Bhd. (1276883-M)
P.A. Engineering	P.A. Metal Engineering Sdn. Bhd. (182803-H)
P.A. Metal	P.A. Metal Technics Sdn. Bhd. (392454-U)
Prospectus	The prospectus dated 21 June 2019 in relation to the initial public offering
Report	This Accountants' Report prepared for inclusion in the Prospectus of i-Stone in connection with the Listing
Share(s) or i-Stone Share(s)	Ordinary share(s) in i-Stone
Top One Technology	Top One Technology Sdn. Bhd. (1177690-P)
Turnitin	Turnitin Pte. Ltd. (201023317C) <i>(formerly known as i-Stone Technology Pte. Ltd.)</i>
Venture Primus	Venture Primus Sdn. Bhd. (1053163-H)

Currencies

RM and Sen	Ringgit Malaysia and sen, respectively
SGD	Singapore Dollar
USD	United States Dollars

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

1. INTRODUCTION

This Accountants' Report has been prepared for inclusion in the Prospectus of i-Stone in connection with the listing of and quotation for the enlarged issued share capital of i-Stone on the ACE Market of Bursa Securities (hereinafter defined as "the Listing"), and shall not be relied on for any other purposes. Details of the listing scheme are disclosed in Section 3 of this Report.

2. GENERAL INFORMATION

i-Stone was incorporated in Malaysia under the Act 2016 on 22 March 2018 as a private limited company under the name of i-Stone Group Sdn. Bhd., with an issued share capital of RM100 comprising 100 ordinary shares. Subsequently, on 25 May 2018, it was converted into a public limited company and since then, assumed its current name of i-Stone Group Berhad.

The Company is principally engaged in the business of investment holding.

The registered office of the Company is located at Lot 6.08, 6th Floor, Plaza First Nationwide, No. 161 Jalan Tun H.S. Lee, 50000 Kuala Lumpur.

The principal place of business of the Company is located at 12-2, Jalan Persiaran Teknologi, Taman Teknologi Johor, 81400 Senai, Johor.

3. INTERNAL RESTRUCTURING EXERCISE AND LISTING SCHEME

3.1 Listing Scheme

(a) Initial Public Offering ("IPO")

The IPO involves a public issue of 244,296,000 new i-Stone Shares ("Public Issue") and an offer for sale by the Offerors of 122,148,000 existing ordinary shares representing 20% and 10% respectively of the enlarged number of issue shares of the Company.

(b) Listing

Upon completion of the IPO, the Company would seek the listing of and quotation for its entire enlarged issued share capital of 1,221,477,200 Shares on the ACE Market of Bursa Securities.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****3. INTERNAL RESTRUCTURING EXERCISE AND LISTING SCHEME (CONT'D)****3.2 Internal Restructuring Exercise**

For the purposes of the Listing on the ACE Market of Bursa Securities, the Group undertook an internal restructuring exercise that involved:

(a) Shareholdings Reorganisation

On 17 April 2018, Tee Sook Sing subscribed for 1 new ordinary share in One United Equity Sdn. Bhd. ("OUE") for a cash subscription consideration of RM1.00. On 3 July 2018, Tee Sook Sing, Chan Kok San, Chin Chung Lek and Chan Sai Kong subscribed for a total of 48,959 new ordinary shares in OUE for the total cash subscription consideration of RM48,959. Thereafter, OUE had on 11 July 2018 subscribed for a total of 421,875 i-Stone Technology Shares, for the total cash subscription consideration of RM4,218.75.

(b) Disposals by i-Stone Technology

The companies disposed by i-Stone Technology as well as Bizit Systems Singapore (*pursuant to disposal of One Galaxy Systems*) were either dormant or its principal activities are not related to the Group's core activities, as detailed below: -

Company	Equity interest disposed (%)	Disposal consideration (RM)
Top One Technology	51.0	51,000
One Galaxy Capital	40.0	250,000
One Gourmet	50.0	8
P.A. Engineering	60.0	4,800
One Galaxy Equity	51.0	160,000
One Galaxy Systems	94.7	175,120
Venture Primus	250,000 Preference shares	1
		640,929

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

3. INTERNAL RESTRUCTURING EXERCISE AND LISTING SCHEME (CONT'D)**3.2 Internal Restructuring Exercise (cont'd)**

For the purposes of the Listing on the ACE Market of Bursa Securities, the Group undertook an internal restructuring exercise that involved: (cont'd)

(c) Acquisitions by i-Stone Technology

Acquisitions by i-Stone Technology includes remaining equity interest currently not held by i-Stone Technology, and subsidiaries of Turnitin (a company wherein Chan Kok San, Tee Sook Sing and Chin Chung Lek was previously its Directors and currently its shareholders as well as Chan Sai Kong who is currently its Director and shareholder), namely i-Stone International and Bizit Systems Singapore, at a total purchase consideration of RM3,614,336, satisfied via the issuance of 78,824 ordinary shares of i-Stone Technology at issue price of RM13.282 per share and RM2,567,396 by cash, as detailed below: -

Company	Remaining equity interest (%)	No. of shares issued by i-Stone Technology	Share consideration (RM)	Cash consideration (RM)
<i>Completed on 30 April 2019</i>				
i-Stone Engineering	30.0	33,149	440,285	-
P.A. Metal	40.0	26,346	349,927	-
Bizit Systems Malaysia	10.0	2,319	30,801	-
i-Stone International	100.0	-	-	534,019
Bizit Systems Singapore	100.0	17,010	225,927	2,033,377
		78,824	1,046,940	2,567,396

(d) Acquisition of i-Stone Technology

The Company entered into a conditional share purchase agreement dated 31 October 2018 for the acquisition of the entire enlarged share capital of 1,250,699 ordinary shares in i-Stone Technology for a purchase consideration of RM16,612,079. The purchase consideration was wholly satisfied via the issuance of 977,181,100 new ordinary shares in the Company at an issue price of approximately RM0.017 per i-Stone share on 2 May 2019. Immediately thereafter, i-Stone Technology became a wholly-owned subsidiary of the Company. The conditions precedent for the Acquisition of i-Stone Technology includes:

- (i) the approval of the board of directors of the Company and if required the approval of the shareholders of the Company;
- (ii) the completion of the Acquisitions by i-Stone Technology; and
- (iii) the approval of Bursa Securities being obtained for the IPO.

(Collectively referred to as "**Internal Restructuring**")

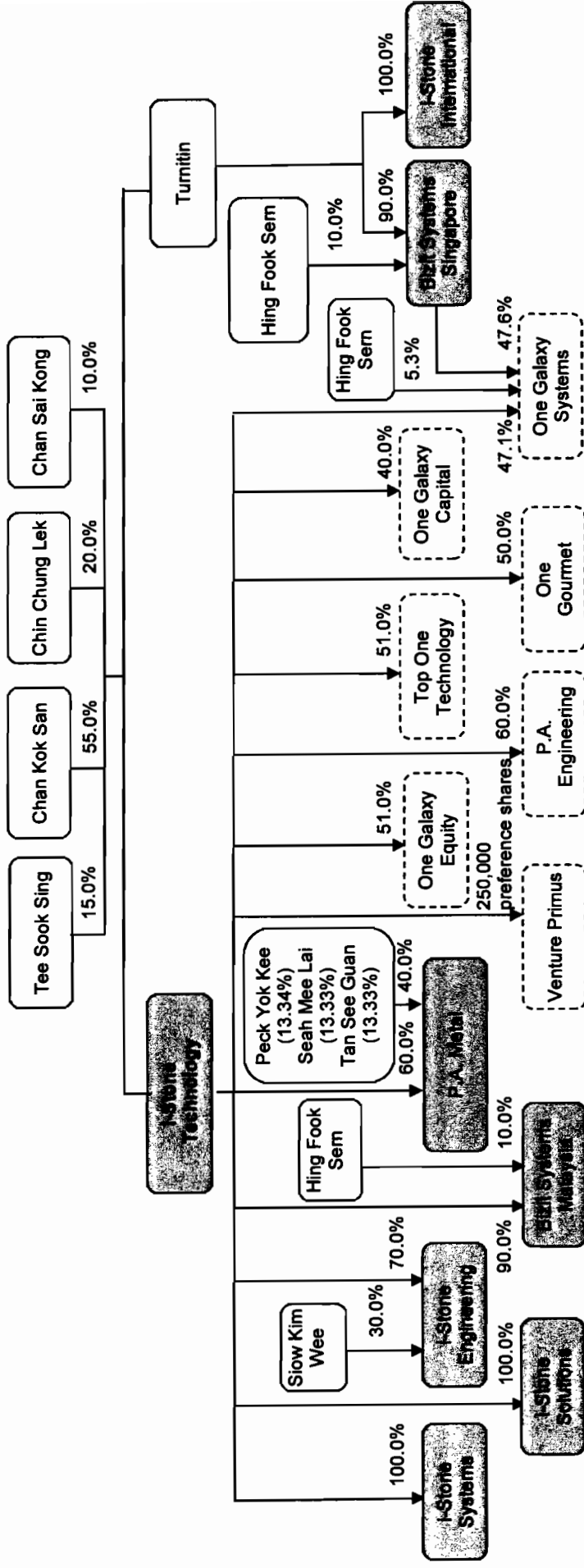
12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

3. INTERNAL RESTRUCTURING EXERCISE AND LISTING SCHEME (CONT'D)

3.3 Group structure

The corporate structure prior to the Internal Restructuring is as follows:



The above diagram only illustrates the entities involved in the Internal Restructuring

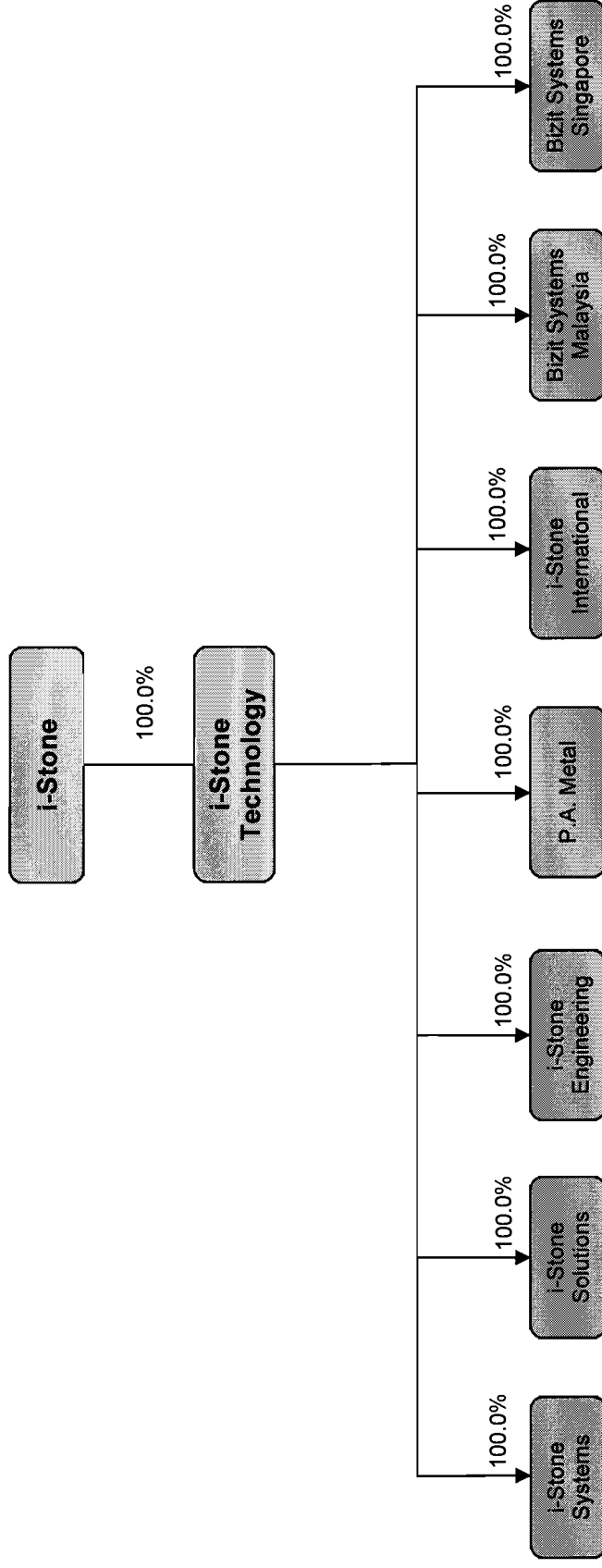
12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

3. INTERNAL RESTRUCTURING EXERCISE AND LISTING SCHEME (CONT'D)

3.3 Group structure (cont'd)

The corporate structure of i-Stone Group and its subsidiaries following the Internal Restructuring is as follows:



i-Stone and its subsidiaries are collectively known as "i-Stone Group" or "Group" in the historical financial information contained in this Report.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****3. INTERNAL RESTRUCTURING EXERCISE AND LISTING SCHEME (CONT'D)****3.3 Group structure (cont'd)**

The principal activity of i-Stone is investment holding. Details of the subsidiaries as at the date of this Report are as follows:

<u>Subsidiaries</u>	<u>Date of incorporation</u>	<u>Issued and paid-up share capital</u>	<u>Effective equity interest (%)</u>	<u>Principal activities</u>
<u>Incorporated in Malaysia:</u>				
i-Stone Technology	29 January 2007	RM1,801,159.12	100	Investment holding company
<u>Subsidiaries of i-Stone Technology</u>				
<u>Incorporated in Malaysia:</u>				
i-Stone Solutions	21 May 2013	RM100,000	100	Provision of DMS and engineering design services
i-Stone Systems	2 December 2015	RM1,000,000	100	Manufacturing and modification of specialised automation machines, provision of maintenance and technical support services and supply of spare parts
P.A. Metal	1 July 1996	RM100,000	100	Design and fabrication of metal panels and frames
Bizit Systems Malaysia	23 April 2007	RM100,000	100	Distribution of statistical analysis software, wireless communication devices and robotic arms
i-Stone Engineering	23 April 2008	RM250,000	100	Design and fabrication of precision parts
<u>Incorporated in Singapore:</u>				
i-Stone International	1 March 2013	SGD200,000	100	Sales of specialised automation machines
Bizit Systems Singapore	30 May 2011	SGD100,000	100	Distribution of statistical analysis software and wireless communication devices

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

4. AUDITED HISTORICAL FINANCIAL INFORMATION

This Report comprises solely the audited combined historical financial information of i-Stone and its subsidiaries for the past four (4) FYE 31 December 2015, 2016, 2017 and 2018.

5. SHARE CAPITAL

i-Stone was incorporated on 22 March 2018 under the Act 2016 as a private limited company with an issued share capital of RM100 comprising 100 ordinary shares, and converted into a public limited company on 25 May 2018.

5.1 Details of changes in the issued and paid-up share capital of the Company since the date of the incorporation are as follows:

<u>Date</u>	<u>No. of shares</u>	<u>Details</u>	<u>Cumulative no. of shares</u>	<u>Amount (RM)</u>
22 March 2018	100	Subscribers' shares	100	100.00
2 May 2019	977,181,100	Acquisition of i-Stone Technology	977,181,200	16,612,178.70

Upon completion of IPO, the enlarged share capital will be increased to 1,221,477,200 Shares from the issuance of 244,296,000 Shares from Public Issue.

[The remaining of this page is left blank intentionally]

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

i-Stone Group Berhad (1273151-K) Accountants' Report

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

6.1 Basis of preparation

The combined financial statements have been prepared in accordance with MFRS and IFRS, and based on the Guidance Note on 'Accountant's Report by Reporting Accountant' issued by the Malaysian Institute of Accountants in relation to the Listing.

The combined financial statements of the Group for the relevant period were prepared in a manner similar to the "pooling-of-interest" method, as if the entities within the Group were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of entities within the Group, if later. Such manner of presentation reflects the economic substance of the combining entities, which were under common control throughout the relevant period.

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory. Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of common controlled entities are included in the financial statements from the day that control commences until the date that control ceases.

The combined financial statements consist of the financial statements of combining entities as disclosed in Section 8.3 of this Report, which were under common control of Chan Kok San, Chan Sai Kong, Tee Sook Sing and Chin Chung Lek throughout the reporting periods. The common control of the combining entities has been established by virtue of common controlling shareholders in i-Stone Technology.

As the i-Stone Group has not been in place as at 31 December 2018, there are no consolidated financial statements of i-Stone Group for FYE 31 December 2015, 2016, 2017 and 2018. All the financial statements of respective combining entities are audited and are not subject to any qualification, modification and disclaimer.

The audited combined financial statements of i-Stone Group have been prepared as if i-Stone Group has operated as a single economic entity throughout FYE 31 December 2015 to 31 December 2018 and have been prepared from the books and records maintained by each entity. The historical financial information of the combining entities with different length of financial periods have been carved out into 12 months to be coterminous with i-Stone Group and such historical financial information has been audited by Ecovis MALAYSIA PLT.

The combined financial statements have been prepared using historical financial information obtained from the records of the combining entities during the reporting periods.

The historical financial information as presented in the combined financial statements do not correspond to the consolidated financial statements of i-Stone Technology, as the combined financial statements reflect business combinations under common control for the purpose of the Listing. Consequently, such financial information in the combined financial statements do not purport to predict the financial positions, results of operations and cash flows of the Group during these financial years.

The accounting policies set out in Section 6.2 of this Report have been applied in preparing the combined financial statements for the FYE 31 December 2015, 2016, 2017 and 2018, unless otherwise stated.

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

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies

6.2.1 Basis of accounting

The combined financial statements have been prepared under the historical cost convention except as otherwise stated in the financial statements.

The preparation of these financial statements in conformity with MFRS and IFRS requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. The Directors are also required to exercise their judgement in the process of applying the accounting policies. Areas involving such judgements, estimates and assumptions are disclosed in Section 6.4 of this Report. Although these estimates and assumptions are based on the best knowledge of events and actions of the Directors, actual results could differ from those estimates.

6.2.2 Basis of consolidation

The combined financial statements incorporate the financial statements of the combining entities as disclosed in Section 8.3 of this Report. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (a) Power over the investee;
- (b) Exposure, or rights, to variable returns from its involvement with the investee; and
- (c) The ability to use its power over the investee to affect its returns.

If the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement with the other vote holders of the investee;
- (b) Rights arising from other contractual agreements; and
- (c) The voting rights and potential voting rights of the Group.

Intragroup balances, transactions, income and expenses are eliminated in the combined financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the interest of the Group in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment. The combined financial statements reflect external transactions only.

The financial statements of the combining entities are prepared for the same reporting period, using consistent accounting policies. The accounting policies of the combining entities are changed to ensure consistency with the policies adopted by the other entities in the combining entities, where necessary.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.2 Basis of consolidation (cont'd)**

Non-controlling interests represent equity in the combining entities that are not attributable, directly or indirectly, to the common controlling shareholders, and is presented separately in the combined statement of profit or loss and other comprehensive income and within equity in the combined statement of financial position, separately from equity attributable to the common controlling shareholders. Profit or loss and each component of other comprehensive income are attributed to the common controlling shareholders and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate. Assets, liabilities, income and expenses of a subsidiary disposed of during the financial period are included in the combined statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the common controlling shareholders' interests in a combining entity 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 combining entity. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to the common controlling shareholders of the combining entities.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- (i) Aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) Previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the combining entities are accounted for (i.e. reclassified to profit or loss or transferred directly to retained profits) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former combining entities at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 *Financial Instruments: Recognition and Measurement* (2018: MFRS 9, *Financial Instruments*) or, where applicable, the cost on initial recognition of an investment in associate or joint venture.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.2 Basis of consolidation (cont'd)

Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investment in an associate is accounted for in the combined financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The combined financial statements include the Group's share of the profit or loss and other comprehensive income of the associate, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in profit or loss.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad (1273151-K) Accountants' Report

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.3 Business combinations not under common control

Business combinations not under common control are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

- (a) Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits*, respectively;
- (b) Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- (c) Assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. Measurement period adjustments to contingent consideration are dealt with as follows:

- (a) If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.
- (b) Subsequent changes to contingent consideration classified as an asset or liability that is a financial instrument within the scope of MFRS 139 (2018: MFRS 9) are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 139 (2018: MFRS 9). All other subsequent changes are recognised in profit or loss.

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement basis is made on a combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.4 Business combinations under common control**

The Group resulting from the internal restructuring exercise, as disclosed in Sections 3 and 6.1 of this Report, comprises entities under common control. An acquisition that resulted in a business combination involving common control entities is outside the scope of MFRS 3 *Business Combination*.

Business combinations under common control in the form of equity instrument exchanges are accounted for by applying the merger method of accounting. In applying merger accounting, financial statements items of the combining entities for the reporting period in which common control combination occurs are included in the audited combined financial statements of the Group as if the combination had occurred from the date when the combining entities first come under the control of the controlling party or parties.

Assets, liabilities, income and expenses of the merger entities are reflected at their carrying amounts reported in the individual financial statements for the full financial year, irrespective of the date of the merger. Any difference between the consideration paid and the share capital of the merger entity are reflected within equity as reorganisation reserve.

6.2.5 Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised as a gain in profit or loss.

Goodwill acquired in a business combination is from the acquisition date, allocated to each of the cash-generating units ("CGU") or groups of CGU of the Group that are expected to benefit from the synergies of the combination giving rise to the goodwill irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.6 Property, plant and equipment and depreciation**

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group are obligated to incur when the asset is acquired, if applicable.

Depreciation is calculated under the straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Depreciation of an asset begins when it is ready for its intended use.

The principal annual depreciation periods are as follows: -

Leasehold lands	60 years
	%
Buildings	2
Plant and machinery	10 - 20
Furniture and equipment	10 - 20
Motor vehicles	20
Renovation	10 - 20

At the end of each reporting period, the carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable.

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period 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. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset is recognised in profit or loss.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.7 Leases****(a) Finance lease**

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

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

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

(b) 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 statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property and measured using cost model.

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

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

6.2.8 Investment properties**(a) Investment properties carried at cost**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include freehold land, leasehold land and buildings which in substance is a finance lease held for a currently undetermined future use. Investment properties initially and subsequently measured at cost are accounted for similarly to property, plant and equipment.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.8 Investment properties (cont'd)****(a) Investment properties carried at cost (cont'd)**

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation is computed on the straight-line method over the estimated useful life of the assets, at the following annual rates:

Buildings	2%
-----------	----

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Investment properties are derecognised when either they have been disposal of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the year of retirement or disposal.

(b) Transfer to/from investment properties

When an item of property, plant and equipment is transferred to investment property following a change in its use, the carrying amount of item immediately prior to transfer is recognised as the deemed cost of the investment property for subsequent accounting.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its carrying amount at the date of reclassification becomes its deemed cost for subsequent accounting.

6.2.9 Inventories

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

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

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

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.10 Non-current assets held for sale**

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution to owners rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale or distribution, 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 of disposal.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairments losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted associates and joint ventures ceases once classified as held for sale of distribution.

6.2.11 Financial instruments**(i) Initial recognition and measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions for the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement**Financial assets**

On initial recognition, a financial asset is classified as measured at:

- (a) amortised cost;
- (b) fair value through other comprehensive income (FVOCI) – debt investment;
- (c) fair value through other comprehensive income (FVOCI) – equity investment; or
- (d) fair value through profit or loss (FVTPL).

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.11 Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.11 Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for sales and expectations about future sales activity.

Transfer of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.11 Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial assets (cont'd)

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)
- A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.11 Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial assets (cont'd)

Financial assets: Subsequent measurement and gains and losses

(a) Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(b) Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

(c) Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

(d) Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividend are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.11 Financial instruments (cont'd)

(ii) Classification and subsequent measurement (cont'd)

Financial liabilities

Financial liabilities: Classification and subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expenses, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Financial guarantee contracts

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

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

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.11 Financial instruments (cont'd)

(iv) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial assets.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad (1273151-K) Accountants' Report

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.12 Impairment

Financial instruments and contract assets

The Group recognises loss allowances for Expected Credit Losses ('ECLs') on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets.

The Group applies a two-step approach to measure the ECL on financial assets other than trade receivables and contract assets:

(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.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

The Group assesses at each financial year end whether there has been a significant increase in credit risk for financial assets by comparing the risk of default occurring over the expected life with the risk of default since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers past loss experience and observable data such as current changes and future forecasts in economic conditions to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 365 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial assets is more than 365 days past due.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.12 Impairment (cont'd)**

Financial instruments and contract assets (cont'd)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating when estimating ECLs is the maximum contractual period over the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 365 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.12 Impairment (cont'd)

Other assets

The carrying amounts of the other assets (except for inventories, deferred tax asset, assets arising from employee benefits, investment property measured at fair value and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

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

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

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

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

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.13 Borrowing costs

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing eligible for capitalisation.

6.2.14 Taxes

Income taxes include all domestic and foreign taxes on taxable profit. Income taxes also include other taxes, such as withholding tax, which is payable by a foreign subsidiary on distributions to the Group, and real property gains taxes payable on disposal of properties.

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.

(a) Current tax

Current tax expenses are determined according to the tax laws of the jurisdiction in which the Group operate and include all taxes based upon taxable profits, and real property gains taxes payable on disposal of properties, if any.

(b) Deferred tax

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

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.14 Taxes (cont'd)****(b) Deferred tax (cont'd)**

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

Any unutilised portion of a tax incentive 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.

(c) Goods and services tax ("GST")

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

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

6.2.15 Provisions

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

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits would be required to settle the obligation, the provision would be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.16 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources would be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise a contingent asset but discloses its existence where the inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations not under common control, contingent liabilities assumed are measured initially at their fair value at the acquisition date.

6.2.17 Employee benefits

(a) Short-term employee benefits

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

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

(b) State plans

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

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****6.2 Significant accounting policies (cont'd)****6.2.17 Employee benefits (cont'd)****(c) Share-based payment transactions**

The grant date fair value of share-based payment granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the employee share options is measured using a Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

6.2.18 Foreign currencies**(a) Functional and presentation currency**

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The combined financial statements are presented in Ringgit Malaysia, which is the functional and presentation currency of the Group.

(b) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currency at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of each reporting period are translated into functional currency at rates of exchange ruling at that date.

All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise.

Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items, which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****6.2 Significant accounting policies (cont'd)****6.2.18 Foreign currencies (cont'd)****(c) Foreign operations**

Financial statements of foreign operations are translated at exchange rates at end of the reporting period with respect to their assets and liabilities, and at exchange rates at the dates of the transactions with respect to the statements of profit or loss and other comprehensive income. All resulting translation differences are recognised as a separate component of equity.

In the combined financial statements, exchange differences arising from the translation of net investment in foreign operations are taken to equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on disposal.

Exchange differences arising on a monetary item that forms part of the net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the foreign operation, as appropriate. In the combined financial statements, such exchange differences shall be recognised initially as a separate component of equity and recognised in profit or loss upon disposal of the net investment.

Goodwill and fair value adjustments to the assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the acquired entity and translated at the exchange rate ruling at the end of each reporting period.

The exchange rates used for the translation of foreign operations are extracted from Bank Negara Malaysia as follows:

<u>Singapore Dollar</u> <u>("SGD")</u>	<u>2015</u> <u>SGD 1.00</u>	<u>2016</u> <u>SGD 1.00</u>	<u>2017</u> <u>SGD 1.00</u>	<u>2018</u> <u>SGD 1.00</u>
Average rate	RM2.8388	RM3.0015	RM3.1145	RM2.9912
Closing rate	RM3.0356	RM3.1016	RM3.0392	RM3.0322

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.19 Revenue and other income

The Group recognises revenue from contracts with customers based on the five-step model as below:

- (a) Identify contract(s) with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
- (b) Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- (c) Determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- (d) Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- (e) Recognise revenue when (or as) the Group satisfy a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time if the Group's performance:

- (i) Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to-date; or
- (ii) Creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (iii) Provides benefits that the customer simultaneously receives and consumes as the Group performs.

For performance obligations where any one of the above conditions is not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**6.2 Significant accounting policies (cont'd)****6.2.19 Revenue and other income (cont'd)**

Revenue is measured at the fair value of consideration received or receivable. The following describes the performance obligation in contracts with customers:

(a) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(i) Sales of manufactured and trading goods

The Group recognises revenue when customers obtain control of manufactured goods when they take possession of the goods. Invoices are generated and revenue is recognised at that point in time.

For contracts that permit the customer to return an item, under MFRS 15 revenue is recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific type of goods. Returned goods are exchanged only for new goods – i.e. no cash refunds are offered. In such circumstances, a refund liability and a right to recover returned goods asset are recognised.

(ii) Services

Revenue is recognised at a point in time as those services are provided. The total consideration in the service contracts is allocated to all services based on their stand-alone selling prices.

(b) Dividend income

Dividend income is recognised in profit or loss on the date the Group's or the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(c) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from investment and subleased properties are recognised as other income.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.19 Revenue and other income (cont'd)

(d) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss except for interest income arising from temporary investment of borrowings taken specifically for the purpose of obtaining a qualifying asset which is accounted for in accordance with the accounting policy on borrowing costs.

(e) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

6.2.20 Operating segments

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

6.2.21 Earnings per share

(a) Basic

Basic earnings per share for the financial year is calculated by dividing the profit for the financial year attributable to common controlling shareholders by the expected number of ordinary shares of the Company upon completion of the Listing.

(b) Diluted

Diluted earnings per share for the financial year is calculated by dividing the profit for the financial year attributable to common controlling shareholders by the expected number of ordinary shares of the Company upon completion of the Listing, adjusted for the effects of dilutive potential ordinary shares.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2 Significant accounting policies (cont'd)

6.2.22 Fair value measurement

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

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

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

6.2.23 Related parties

A party is related to an entity (referred to as the "reporting entity") if:

- (i) A person or a close member person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.2.23 Related parties (cont'd)

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a) above.
- (vii) A person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

6.2.24 Current versus non-current classification

Assets and liabilities in statement of financial position are presented based on current/non-current classification. An asset is current when it is:

- (i) Expected to be realised or intended to sold or consumed in normal operating cycle;
- (ii) Held primarily for the purpose of trading;
- (iii) Expected to be realised within twelve months after the reporting period; or
- (iv) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- (i) It is expected to be settled in normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.3 New MFRSs that have been issued, but not yet effective and not yet adopted

The following are the Standards and Amendments of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group:

(a) Effective for annual periods beginning on or after 1 January 2019

MFRS 16, Leases
Amendments to MFRS 3, Business Combinations (Annual Improvements 2015 – 2017 Cycle)
Amendments to MFRS 9, Financial Instruments – Prepayment Features with Negative Compensation
Amendments to MFRS 11, Joint Arrangements (Annual Improvements 2015 – 2017 Cycle)
Amendments to MFRS 112, Income Taxes (Annual Improvements 2015 – 2017 Cycle)
Amendments to MFRS 119, Employee Benefits – Plan Amendment, Curtailment or Settlement
Amendments to MFRS 123, Borrowing Costs (Annual Improvements 2015 – 2017 Cycle)
Amendments to MFRS 128, Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
IC Interpretation 23, Uncertainty over Income Tax Treatments

(b) Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3, Business Combinations – Definition of Business
Amendments to MFRS 101, Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
Amendments to References to the Conceptual Framework in MFRS Standards

(c) Effective for annual periods beginning on or after 1 January 2021

MFRS 17, Insurance Contracts

(d) Effective for a date yet to be confirmed

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

The Group is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for future financial years.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad (1273151-K) Accountants' Report

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.4 Significant accounting estimates and judgements

Estimates and judgements are continually evaluated by the Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that affect the application of the Group's accounting policies and disclosures, and have a significant risk of causing a material adjustment to the carrying amounts of assets, liabilities, income and expenses are discussed below.

6.4.1 Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in this combined financial statements.

The Group has adopted MFRS 9 *Financial Instruments* with a date of initial application of 1 January 2018. The requirements of MFRS 9 represent a significant change from MFRS 139 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of MFRS 9, the Group adopted consequential amendments to MFRS 101 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income (OCI). Previously, the Group's approach was to include the impairment of trade receivables in other expenses. Additionally, the Group adopted consequential amendments to MFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about FYE 2018 but generally have not been applied to comparative information.

(i) Classification of financial assets and financial liabilities

MFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under MFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. MFRS 9 eliminates the previous MFRS 139 categories of held to maturity, loans and receivables and available for sale. Under MFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The adoption of MFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

(ii) Impairment of financial assets

MFRS 9 replaces the 'incurred loss' model in MFRS 139 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under MFRS 9, credit losses are recognized earlier than under MFRS 139.

[The remaining of this page is left blank intentionally]

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

i-Stone Group Berhad (1273151-K) Accountants' Report

6. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

6.4 Significant accounting estimates and judgements

6.4.1 Changes in accounting policies (cont'd)

The Group has adopted MFRS 15 *Revenue from Contracts Customers* with a date of initial application of 1 January 2018. MFRS 15 establishes a single comprehensive model for revenue recognition and superseded the current revenue recognition guidance and other related interpretations. Under MFRS 15, an entity shall recognise revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers. In addition, extensive disclosures are required by MFRS 15.

Adoption of the MFRS 9 and MFRS 15 do not have financial impact to the financial statements of the Company. The comparative financial statements for the prior years and the opening statement of financial position have not been restated.

6.4.2 Changes in estimates

The Directors and management are of the opinion that there are no significant changes in estimates at the end of each reporting period.

6.4.3 Critical judgements made in applying accounting policies

The following are judgements made by the Directors in the process of applying the accounting policies of the Group that have the most significant effect on the amounts recognised in the combined financial statements.

(a) Classification of a property as an investment property or property, plant and equipment

Certain property comprises of a portion that is held to earn rental income or capital appreciation, or for both, whilst the remaining portion is held for use in the production or supply of goods and services or for administrative purposes. If the portion held for rental and/or capital appreciation could be sold separately (or leased out separately as a finance lease), the Group accounts for that portion as an investment property. If the portion held for rental and/or capital appreciation could not be sold or leased out separately, it is classified as an investment property only if an insignificant portion of the property is held for use in the production or supply of goods and services or for administrative purposes. Management uses its judgement to determine whether any ancillary services are of such significance that a property does not qualify as an investment property.

6.4.4 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final 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.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****7. HISTORICAL FINANCIAL INFORMATION AND LIMITATIONS**

The relevant financial years or period of the audited financial statements presented for the purpose of this Report ("Relevant Financial Years") and the statutory auditors of the respective companies within the Group were as follows:

Company	Relevant Financial Years/Period	Auditors
i-Stone Technology	FYE 2015 and 2016 FYE 2017 and FYE 2018	OK Yau & HowYong ECOVIS MALAYSIA PLT
i-Stone Solutions	FYE 2015 and 2016 FYE 2017 and FYE 2018	OK Yau & HowYong ECOVIS MALAYSIA PLT
i-Stone Systems	Financial period from 2 December 2015 (Date of incorporation) to 31 December 2016 FYE 2017 and FYE 2018	OK Yau & HowYong ECOVIS MALAYSIA PLT
P.A. Metal	Financial period from 1 July 2016 to 31 December 2016 FYE 2017 and FYE 2018	OK Yau & HowYong ECOVIS MALAYSIA PLT
Bizit Systems Malaysia	FYE 2015 and 2016 FYE 2017 and FYE 2018	OK Yau & HowYong ECOVIS MALAYSIA PLT
i-Stone Engineering	FYE 2015 and 2016 FYE 2017 and FYE 2018	OK Yau & HowYong ECOVIS MALAYSIA PLT
i-Stone	Financial period from 5 March 2018 (Date of incorporation) to 31 December 2018	ECOVIS MALAYSIA PLT

The financial statements of the abovementioned combining entities for the financial years or period ended 31 December 2015 and 2016 have been re-audited by us, for the purpose of inclusion into the combined financial statements.

The financial statements of i-Stone International and Bizit Systems Singapore for the financial years ended 31 December 2015, 2016, 2017 and 2018 were not required to be audited in their country of incorporation. These financial statements for the abovementioned financial years have been audited by us, for the purpose of inclusion into the combined financial statements. The financial statements were prepared in accordance with MFRS and IFRS.

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

The historical financial information in Section 8 of this Report is based on the respective combining entities with applicable appropriate adjustments and reclassifications made for the purpose of this Report.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION**8.1 Property, plant and equipment**

Audited 2015 At cost	As at	Additions RM	Acquisition of subsidiary RM	Disposals/ Written off RM	Reclassification/ Transfer RM	Effect of movement in exchange rates RM	As at
	1.1.2015 RM						31.12.2015 RM
Freehold land	212,017	180,000	-	-	-	-	392,017
Buildings	747,100	296,446	-	-	-	-	1,043,546
Building-in-progress	303,688	324,800	-	-	-	-	628,488
Furniture and equipment	762,712	169,908	-	(1,250)	-	49,763	981,133
Motor vehicles	1,229,402	216,123	-	-	-	-	1,445,525
Renovation	602,190	-	-	-	-	17,631	619,821
	3,857,109	1,187,277	-	(1,250)	-	67,394	5,110,530

2015 Accumulated depreciation	As at	Charge for the year RM	Acquisition of subsidiary RM	Disposals/ Written off RM	Reclassification/ Transfer RM	Effect of movement in exchange rates RM	As at
	1.1.2015 RM						31.12.2015 RM
Buildings	45,782	20,872	-	-	-	-	66,654
Furniture and equipment	384,480	163,655	-	(1,250)	-	15,337	562,222
Motor vehicles	794,932	203,422	-	-	-	-	998,354
Renovation	497,224	14,346	-	-	-	3,463	515,033
	1,722,418	402,295	-	(1,250)	-	18,800	2,142,263

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.1 Property, plant and equipment (Cont'd)**

Audited	As at	Additions	Acquisition	Disposals/	Reclassification/	Effect of	As at
2017	1.1.2017	RM	of subsidiary	Written off	Transfer	movement in	31.12.2017
	RM	RM	RM	RM	RM	exchange rates	RM
At cost							
Freehold land	743,017	-	-	-	(180,000)	-	563,017
Buildings	2,345,036	-	-	-	(296,446)	-	2,048,590
Plant and machinery	921,573	41,023	-	(10,878)	-	-	951,718
Furniture and equipment	1,257,974	198,376	-	-	-	(9,935)	1,446,415
Motor vehicles	1,299,082	333,437	-	-	-	-	1,632,519
Renovation	818,609	7,730	-	-	-	(2,816)	823,523
	7,385,291	580,566	-	(10,878)	(476,446)	(12,751)	7,465,782

Audited	As at	Charge for	Acquisition	Disposals/	Reclassification/	Effect of	As at
2017	1.1.2017	the year	of subsidiary	Written off	Transfer	movement in	31.12.2017
	RM	RM	RM	RM	RM	exchange rates	RM
Accumulated depreciation							
Buildings	117,481	40,980	-	-	(11,859)	-	146,602
Plant and machinery	264,205	96,334	-	(9,446)	-	-	351,093
Furniture and equipment	807,033	162,395	-	-	-	(8,358)	961,070
Motor vehicles	967,571	230,238	-	-	-	-	1,197,809
Renovation	570,568	34,734	-	-	-	(1,329)	603,973
	2,726,858	564,681	-	(9,446)	(11,859)	(9,687)	3,260,547

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.1 Property, plant and equipment (Cont'd)**

Audited 2018 At cost	As at	Additions RM	Acquisition of subsidiary RM	Disposals/ Written off RM	Reclassification/ Transfer RM	Effect of movement in exchange rates RM	As at
	1.1.2018 RM						31.12.2018 RM
Freehold land	563,017	-	-	(563,017)	-	-	-
Leasehold land	-	5,833,111	-	-	-	-	5,833,111
Buildings	2,048,590	9,496,723	-	(1,338,902)	1,086,611	-	11,293,022
Plant and machinery	951,718	1,917,868	1,220,671	(116,424)	-	-	3,973,833
Furniture and equipment	1,446,415	1,223,713	101,074	(548,557)	-	(1,152)	2,221,493
Motor vehicles	1,632,519	398,384	271,205	(559,793)	-	-	1,742,315
Renovation	823,523	1,321,458	55,624	(746,961)	-	(316)	1,453,328
	7,465,782	20,191,257	1,648,574	(3,873,654)	1,086,611	(1,468)	26,517,102

Audited 2018 Accumulated depreciation	As at	Charge for the year RM	Acquisition of subsidiary RM	Disposals/ Written off RM	Reclassification/ Transfer RM	Effect of movement in exchange rates RM	As at
	1.1.2018 RM						31.12.2018 RM
Buildings	146,602	78,758	-	(129,394)	54,490	-	150,456
Plant and machinery	351,093	292,167	818,853	(116,421)	-	-	1,345,692
Furniture and equipment	961,070	174,975	55,476	(479,796)	-	(351)	711,374
Motor vehicles	1,197,809	192,530	149,404	(444,637)	-	-	1,095,106
Renovation	603,973	82,367	15,832	(576,091)	-	47	126,128
	3,260,547	820,797	1,039,565	(1,746,339)	54,490	(304)	3,428,756

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)

8.1 Property, plant and equipment (Cont'd)

	← Audited →			
	2015 RM	2016 RM	2017 RM	2018 RM
Net carrying amount				
Freehold land	392,017	743,017	563,017	-
Leasehold land	-	-	-	5,833,111
Buildings	976,892	2,227,555	1,901,988	11,142,566
Building-in-progress	628,488	-	-	-
Plant and machinery	-	657,368	600,625	2,628,141
Furniture and equipment	418,911	450,941	485,345	1,510,119
Motor vehicles	447,171	331,511	434,710	647,209
Renovation	104,788	248,041	219,550	1,327,200
	2,968,267	4,658,433	4,205,235	23,088,346

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.1 Property, plant and equipment (Cont'd)**

(a) The reclassification and transfer of freehold land and buildings are as follows:

	Audited		
	2015 RM	2016 RM	2017 RM
Cost			
Transferred from/(to) investment property			
- Freehold land	-	381,000	(180,000)
- Buildings	-	957,302	(296,446)
Reclassification of category:			
- Buildings	-	628,488	-
- Building-in-progress	-	(628,488)	-
	-	<u>1,338,302</u>	<u>(476,446)</u>
			<u>1,086,611</u>
Accumulated depreciation			
Transferred from/(to) investment property			
- Buildings	-	38,292	(11,859)
	-	<u>38,292</u>	<u>(11,859)</u>
			<u>54,490</u>

The transfer of freehold land and buildings from investment properties to property, plant and equipment pursuant to properties occupied by combining entities within the Group.

The transfer of freehold land and buildings from property, plant and equipment to investment properties pursuant to properties leased to third parties outside the Group.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.1 Property, plant and equipment (Cont'd)**

- (b) The carrying amount of the property, plant and equipment under hire purchase financing at the end of each reporting period are as follows:

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Motor vehicles	377,096	284,793	351,268	599,032

- (c) As at the end of each reporting period, certain property, plant and equipment of the Group have been charged to local financial institutions for credit facilities granted as disclosed in Section 8.14 of this Report as follows:

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Land and buildings	864,214	2,767,549	2,345,781	15,965,288
Building-in-progress	628,488	-	-	-
	<u>1,492,702</u>	<u>2,767,549</u>	<u>2,345,781</u>	<u>15,965,288</u>

- (d) Purchase of property, plant and equipment are as follows:

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Cost of property, plant and equipment purchased	1,187,277	752,535	580,566	20,191,257
Amount financed through hire purchase	(150,000)	(60,000)	(160,000)	(250,000)
Cash disbursed for purchase of property plant and equipment	<u>1,037,277</u>	<u>692,535</u>	<u>420,566</u>	<u>19,941,257</u>

12. ACCOUNTANTS' REPORT (cont'd)
**i-Stone Group Berhad
 (1273151-K)
 Accountants' Report**
8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.2 Investment properties**

	←———— Audited —————→			
	2015 RM	2016 RM	2017 RM	2018 RM
Cost				
At beginning of year	5,394,359	7,695,159	7,257,780	6,897,444
Additions	2,300,800	900,923	-	-
Transferred from/(to) property, plant and equipment	-	(1,338,302)	476,446	(1,086,611)
Transferred to assets held for sale	-	-	(836,782)	-
Disposals	-	-	-	(5,502,348)
At end of year	<u>7,695,159</u>	<u>7,257,780</u>	<u>6,897,444</u>	<u>308,485</u>
Accumulated depreciation				
At beginning of year	127,649	240,205	332,488	358,954
Transferred from/(to) property, plant and equipment	-	(38,292)	11,859	(54,490)
Transferred to assets held for sale	-	-	(90,814)	-
Disposals	-	-	-	(324,424)
Depreciation for the year	112,556	130,575	105,421	38,470
At end of year	<u>240,205</u>	<u>332,488</u>	<u>358,954</u>	<u>18,510</u>
Net carrying amount	<u><u>7,454,954</u></u>	<u><u>6,925,292</u></u>	<u><u>6,538,490</u></u>	<u><u>289,975</u></u>
At cost				
Freehold land	2,067,362	1,686,362	1,626,362	-
Buildings	5,387,592	5,238,930	4,912,128	289,975
	<u><u>7,454,954</u></u>	<u><u>6,925,292</u></u>	<u><u>6,538,490</u></u>	<u><u>289,975</u></u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.2 Investment properties (Cont'd)**

Investment properties comprise freehold land and buildings leased to third parties. Each of the leases contains an initial cancellable period of average 2 years and subsequent renewals are negotiated with the lessee and average renewal period is 2 years.

As at the end of each reporting period, the carrying amount of investment properties of the Group have been charged to local financial institutions for credit facilities granted as disclosed in Section 8.14 are as follows:

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
Investment properties	6,914,683	5,569,125	5,210,225	-

The fair value of investment properties at each reporting date is:

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
Fair value	7,630,000	7,530,000	7,010,000	350,000

The Directors have used the desktop valuations dated December 2016 provided by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of properties being valued, to estimate the fair value of the investment properties as the Directors considered that the market value is appreciating but with no substantial variation from the value stated in the desktop valuations.

Fair value of investment properties are categorised as Level 3 as described in Section 6.2.22 in this Report.

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

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
Rental income	91,015	265,035	302,952	101,159
Direct operating expenses				
- income generating	32,302	246,940	335,391	68,363
- non-income generating	172,493	-	-	49,595

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.3 Subsidiaries and/or combining entities**

The details of subsidiaries and/or combining entities for Listing purpose are as follows:

Name of subsidiaries and/or combining entities	Country of incorporation	Effective interest in equity				Principal activities
		FYE	FYE	FYE	FYE	
		2015	2016	2017	2018	
		%	%	%	%	
i-Stone Technology	Malaysia	100	100	100	100	Investment holding company
i-Stone Solutions	Malaysia	100	100	100	100	Provision of DMS and engineering design services
i-Stone Systems ⁽¹⁾	Malaysia	100	100	100	100	Manufacturing and modification of specialised automation machines, provision of maintenance and technical support services and supply of spare parts
P.A. Metal	Malaysia	-	60	60	60	Design and fabrication of metal panels and frames
Bizit Systems Malaysia	Malaysia	85	85	85	90	Distribution of statistical analysis software, wireless communication devices and robotic arms
i-Stone Engineering ⁽²⁾	Malaysia	40	40	40	70	Design and fabrication of precision parts
i-Stone International ⁽³⁾	Singapore	100	100	100	100	Sales of specialised automation machines
Bizit Systems Singapore ⁽³⁾	Singapore	90	90	90	90	Distribution of statistical analysis software and wireless communication devices

(1) The first financial period of i-Stone Systems is from 2 December 2015 (date of incorporation) to 31 December 2015.

(2) On 1 January 2018, i-Stone Technology obtained control in i-Stone Engineering by acquiring additional 30% of its issued share capital, which resulted in i-Stone Engineering becoming a subsidiary of i-Stone Technology.

(3) The financial statements of these combining entities were not required to be audited in their country of incorporation.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.3 Subsidiaries and/or combining entities (cont'd)****Non-controlling interests in subsidiaries**

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

	i-Stone Engineering RM	P.A. Metal RM	Other subsidiaries with immaterial NCI RM	Total RM
<u>Audited</u>				
2015				
Carrying amount of NCI			131,081	131,081
Profit allocated to NCI			81,817	81,817
<u>Audited</u>				
2016				
Carrying amount of NCI		175,461	186,773	362,234
(Loss)/Profit allocated to NCI		(88,338)	48,474	(39,864)
<u>Audited</u>				
2017				
Carrying amount of NCI		415,966	274,311	690,277
Profit allocated to NCI		240,505	93,874	334,379
<u>Audited</u>				
2018				
Carrying amount of NCI	462,981	475,105	345,792	1,283,878
Profit allocated to NCI	77,823	59,139	85,403	222,365

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.3 Subsidiaries and/or combining entities (cont'd)****Non-controlling interests in subsidiaries (cont'd)**

The summarised financial information (before intra-group elimination) of the Group's subsidiaries that have material NCI are as follows:

	P.A. Metal RM
<u>Audited</u>	
As at 31 December 2016	
Non-current assets	406,920
Current assets	952,179
Non-current liabilities	(24,584)
Current liabilities	<u>(1,208,452)</u>
Net assets	<u><u>126,063</u></u>
Year ended 31 December 2016	
Revenue	716,859
Profit for the year	65,184
Other comprehensive income	<u>-</u>
Cash flows from operating activities	17,608
Cash flows from investing activities	(193,996)
Cash flows from financing activities	<u>239,614</u>
Net increase in cash and cash equivalents	<u><u>63,226</u></u>
Dividends paid to NCI	<u><u>-</u></u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.3 Subsidiaries and/or combining entities (cont'd)****Non-controlling interests in subsidiaries (cont'd)**

The summarised financial information (before intra-group elimination) of the Group's subsidiaries that have material NCI are as follows: (cont'd)

	P.A. Metal RM
<u>Audited</u>	
As at 31 December 2017	
Non-current assets	399,732
Current assets	2,001,598
Non-current liabilities	(24,584)
Current liabilities	(1,649,417)
Net assets	<u>727,329</u>
Year ended 31 December 2017	
Revenue	3,935,221
Profit for the year	601,266
Other comprehensive income	<u>-</u>
Cash flows from operating activities	584,981
Cash flows from investing activities	(58,147)
Cash flows from financing activities	(44,820)
Net increase in cash and cash equivalents	<u>482,014</u>
Dividends paid to NCI	<u>-</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.3 Subsidiaries and/or combining entities (cont'd)****Non-controlling interests in subsidiaries (cont'd)**

The summarised financial information (before intra-group elimination) of the Group's subsidiaries that have material NCI are as follows: (cont'd)

	i-Stone Engineering RM	P.A. Metal RM
<u>Audited</u>		
As at 31 December 2018		
Non-current assets	421,077	410,670
Current assets	1,806,286	1,483,420
Non-current liabilities	(21,730)	(35,287)
Current liabilities	(599,229)	(810,867)
Net assets	<u>1,606,404</u>	<u>1,047,936</u>
Year ended 31 December 2018		
Revenue	4,833,011	4,407,477
Profit for the year	322,544	320,607
Other comprehensive income	-	-
Cash flows from operating activities	64,325	371,053
Cash flows from investing activities	65,585	(41,099)
Cash flows from financing activities	(494,520)	(753,000)
Net decrease in cash and cash equivalents	<u>(364,610)</u>	<u>(423,046)</u>
Dividends paid to NCI	-	-

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.4 Investment in associate**

	<----- Audited ----->			
	2015	2016	2017	2018
	RM	RM	RM	RM
Unquoted shares - at cost	80,000	80,000	80,000	-
Share of post-acquisition reserve	222,932	302,046	386,641	-
	<u>302,932</u>	<u>382,046</u>	<u>466,641</u>	<u>-</u>

The details of the associate are as follows:

Name of associate	Country of incorporation	Effective interest in equity				Principal activities
		FYE 2015	FYE 2016	FYE 2017	FYE 2018	
		%	%	%	%	
i-Stone Engineering ⁽¹⁾	Malaysia	40	40	40	-	Design and fabrication of precision parts

(1) On 1 January 2018, i-Stone Technology obtained control in i-Stone Engineering by acquiring additional 30% of its issued share capital, which resulted in i-Stone Engineering becoming a subsidiary of i-Stone Technology.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.4 Investment in associate (cont'd)**

The following table summarises the information of the Group's material associate, including in the Group, adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

	<----- Audited ----->			
	2015 RM	2016 RM	2017 RM	2018 RM
i-Stone Engineering				
Summarised financial information				
Non-current assets	366,850	512,839	609,008	-
Current assets	1,553,875	1,636,532	2,103,483	-
Non-current liabilities	(23,686)	(15,827)	(69,399)	-
Current liabilities	(1,022,450)	(1,061,171)	(1,359,232)	-
Net assets	<u>874,589</u>	<u>1,072,373</u>	<u>1,283,860</u>	-
Profit for the year	650,370	397,784	811,487	-
Other comprehensive income	-	-	-	-
Reconciliation of net assets to carrying amount				
Group's share of net assets	302,932	382,046	466,641	-
Goodwill	-	-	-	-
Elimination of unrealised profits	-	-	-	-
Carrying amount in the statement of financial position	<u>302,932</u>	<u>382,046</u>	<u>466,641</u>	-
Group's share of results for the year				
Group's share of results of an associate	339,262	201,707	399,395	-
Group's share of tax expense in associate	(79,114)	(42,593)	(74,800)	-
Group's share of other comprehensive income	-	-	-	-
	<u>260,148</u>	<u>159,114</u>	<u>324,595</u>	-
Other information				
Dividends received by the Group	<u>80,000</u>	<u>80,000</u>	<u>240,000</u>	-

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.5 Other investments**

	<----- Audited ----->			
	2015 RM	2016 RM	2017 RM	2018 RM
Quoted shares: -				
At fair value	377,700	-	-	-
Unquoted shares: -				
Ordinary shares - at cost	636,021	303,991	304,001	-
Less: Accumulated impairment losses	<u>(382,230)</u>	<u>(23,571)</u>	<u>(23,571)</u>	-
	<u>253,791</u>	<u>280,420</u>	<u>280,430</u>	-
 Redeemable non-cumulative non-convertible preference shares - at cost	 -	 -	 1,499,470	 -
	 -	 -	 <u>1,499,470</u>	 -
 Redeemable preference shares - at cost	 250,000	 250,000	 250,000	 -
Less: Accumulated impairment losses	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	-
	 -	 -	 -	 -
Total unquoted shares	<u>253,791</u>	<u>280,420</u>	<u>1,779,900</u>	-
	<u>631,491</u>	<u>280,420</u>	<u>1,779,900</u>	-

Other investments in unquoted ordinary shares represents investments in the below subsidiaries and associates at cost.

The financial position, financial performance and cash flows of the below companies had been carved out from the combined financial statements as the management disposed these companies for the purposes of the Listing. The Directors are of the view that the carve out effect of the below companies is not material to the combined financial statements.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.5 Other investments (cont'd)**

Name of subsidiaries	Country of incorporation	Effective interest in equity				Principal activities
		FYE	FYE	FYE	FYE	
		2015	2016	2017	2018	
		%	%	%	%	
One Galaxy Equity	Malaysia	51	51	51	-	Property investment
P.A. Engineering	Malaysia	-	60	60	-	Dormant since 29 August 2017. (Previously involved in the fabrications of metal products and engineering works)
Top One Technology	Malaysia	-	51	51	-	Trading of electronics component, electrical and industrial
One Galaxy Systems	Malaysia					Property investment
<i>Held by:</i>						
- <i>i-Stone Technology</i>		47.1	47.1	47.1	-	
- <i>Bizit Systems Singapore</i>		47.6	47.6	47.6	-	

- (1) The disposal of the entire equity interest by i-Stone Technology completed on 5 July 2018.
- (2) The disposal of the entire equity interest by i-Stone Technology and Bizit Systems Singapore was completed on 5 July 2018.
- (3) All the above subsidiaries are not audited by Ecovis MALAYSIA PLT.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.5 Other investments (cont'd)**

Name of associates	Country of incorporation	Effective interest in equity				Principal activities
		FYE 2015	FYE 2016	FYE 2017	FYE 2018	
		%	%	%	%	
One Galaxy Capital	Malaysia	-	-	40	-	Investment and trading of quoted shares
One Gourmet	Malaysia	-	-	50	-	Investment holding in food and beverage, namely in Bistromericana (J.B.) Sdn. Bhd.
Kiddo Marketing Sdn Bhd	Malaysia	45	-	-	-	Trading of toys, games, accessories, playground and rides-on car services for kids and children
POD Systems Sdn Bhd	Malaysia	30	-	-	-	Dormant since 1 October 2017

(1) All the above associates are not audited by Ecovis MALAYSIA PLT.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.6 Goodwill on consolidation**

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Cost				
At beginning of year	1,212,163	1,212,163	1,216,666	1,216,666
Acquisition through business combination	-	4,503	-	851,299
At end of year	<u>1,212,163</u>	<u>1,216,666</u>	<u>1,216,666</u>	<u>2,067,965</u>
Impairment loss				
At beginning of year	-	(1,212,163)	(1,212,163)	(1,212,163)
Impairment loss	(1,212,163)	-	-	-
At end of year	<u>(1,212,163)</u>	<u>(1,212,163)</u>	<u>(1,212,163)</u>	<u>(1,212,163)</u>
Net carrying amount	<u>-</u>	<u>4,503</u>	<u>4,503</u>	<u>855,802</u>

The goodwill is mainly associated with the acquisition of i-Stone Engineering in the financial year of 2018 (the "cash generating unit" or "CGU").

Goodwill is tested for impairment on an annual basis by comparing the carrying amount with the recoverable amount of the CGUs based on value-in-use. Value-in-use is determined by discounting the cash flows projections based on the financial budgets approved by the management. The discount rate used is 12%.

A reasonably possible change in the assumptions above would not cause any impairment loss on goodwill.

8.7 Inventories

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
At cost: -				
Raw materials	1,367,972	134,836	130,087	554,273
Work-in-progress	-	787,917	2,784,563	7,384,735
Trading goods	415,675	405,939	440,407	739,797
	<u>1,783,647</u>	<u>1,328,692</u>	<u>3,355,057</u>	<u>8,678,805</u>
 Inventories recognised as cost of sales in profit or loss	 <u>29,674,751</u>	 <u>29,055,964</u>	 <u>39,686,173</u>	 <u>42,933,285</u>

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.8 Trade and other receivables**

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
<u>Trade receivables</u>				
<i>Receivables from contracts with customers:</i>				
- Third parties	9,470,008	12,070,986	15,568,582	12,217,887
- Related parties	144,590	81,589	178,775	-
	<u>9,614,598</u>	<u>12,152,575</u>	<u>15,747,357</u>	<u>12,217,887</u>
Less: Accumulated impairment losses	-	-	-	-
	<u>9,614,598</u>	<u>12,152,575</u>	<u>15,747,357</u>	<u>12,217,887</u>
<u>Other receivables</u>				
- Third parties	323,746	184,796	393,820	271,709
- Related parties	815,856	942,247	2,170,081	-
	<u>1,139,602</u>	<u>1,127,043</u>	<u>2,563,901</u>	<u>271,709</u>
Less: Accumulated impairment losses	-	-	-	-
	<u>1,139,602</u>	<u>1,127,043</u>	<u>2,563,901</u>	<u>271,709</u>
Sundry deposits	292,391	62,524	151,686	325,987
Dividend receivable	-	-	235,000	-
Amount due by director	150,000	-	18,000	-
Prepayments	5,017	44,687	382,531	31,721
	<u>1,587,010</u>	<u>1,234,254</u>	<u>3,351,118</u>	<u>629,417</u>
	<u><u>11,201,608</u></u>	<u><u>13,386,829</u></u>	<u><u>19,098,475</u></u>	<u><u>12,847,304</u></u>

Trade receivables are non-interest bearing and the normal trade credit terms granted ranges from:

	←----- Audited -----→			
	2015	2016	2017	2018
Trade credit terms	<u>30 to 120 days</u>	<u>30 to 120 days</u>	<u>30 to 120 days</u>	<u>30 to 120 days</u>

Other credit terms are assessed and approved on a case-by-case basis. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.8 Trade and other receivables (cont'd)**

(i) The ageing analysis of trade receivables are as follows:

	← Audited →			
	2015 RM	2016 RM	2017 RM	2018 RM
Neither past due nor impaired	9,493,519	11,936,093	15,323,507	10,866,661
Past due but not impaired				
Past due 1 to 30 days	13,704	133,315	214,745	149,670
Past due 31 to 60 days	1,750	7,724	66,903	908,475
Past due 61 to 90 days	2,160	31,300	15,310	10,008
Past due more than 90 days	103,465	44,143	126,892	283,073
	121,079	216,482	423,850	1,351,226
Impaired	-	-	-	-
	<u>9,614,598</u>	<u>12,152,575</u>	<u>15,747,357</u>	<u>12,217,887</u>

- (ii) Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Group. None of the trade receivables that are neither past due nor impaired have been renegotiated during the financial year.
- (iii) Trade receivables that are past due but not impaired mainly arose from active corporate clients with healthy business relationship, in which the management is of the view that the amounts are recoverable based on past payment history. The trade receivables that are past due but not impaired are expected to be collected in the next twelve months.
- (iv) Trade receivables – related parties, represents amount owing by companies in which Directors of the Group have interest in.
- (v) Related parties in other receivables and amount due by director arose mainly from unsecured advances, which is non-interest bearing and repayable on demand.
- (vi) The receivables are not secured by any collateral or credit enhancements.
- (vii) Information on financial risks of trade and other receivables is disclosed in Section 8.27 of this Report.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.9 Cash and cash equivalents**

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Fixed deposits placed with financial institutions	575,071	380,330	-	1,001,000
Cash and bank balances	3,006,469	6,059,503	5,061,536	2,799,237
	<u>3,581,540</u>	<u>6,439,833</u>	<u>5,061,536</u>	<u>3,800,237</u>

- (a) The fixed deposits placed with financial institutions are pledged for credit facilities granted as disclosed in Section 8.14.
- (b) For the purpose of the statement of cash flows, cash and cash equivalents comprise the following as at the end of each reporting period:

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Fixed deposits placed with financial institutions	575,071	380,330	-	1,001,000
Cash and bank balances	3,006,469	6,059,503	5,061,536	2,799,237
	3,581,540	6,439,833	5,061,536	3,800,237
Less: Deposits pledged to financial institutions	<u>(575,071)</u>	<u>(380,330)</u>	<u>-</u>	<u>(1,000,000)</u>
Cash and cash equivalents	<u>3,006,469</u>	<u>6,059,503</u>	<u>5,061,536</u>	<u>2,800,237</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.9 Cash and bank balances (Cont'd)**

(c) The reconciliation of liabilities arising from financing activities are as follows:

	Amount due to directors RM	Loans and borrowings RM	Hire purchase payables RM	Total RM
At 1 January 2017	391,003	6,104,661	260,450	6,756,114
<u>Cash flows:</u>				
Addition	200,522	-	-	200,522
Repayment	-	(363,820)	(112,341)	(476,161)
<u>Non-cash changes:</u>				
Addition of hire purchase facility	-	-	160,000	160,000
At 31 December 2017	591,525	5,740,841	308,109	6,640,475
<u>Cash flows:</u>				
Addition	-	12,000,000	-	12,000,000
Repayment	(587,528)	(5,440,476)	(242,253)	(6,270,257)
<u>Non-cash changes:</u>				
Addition	-	-	250,000	250,000
Interest accrued	-	70,946	-	70,946
Acquisition of subsidiary	-	-	94,520	94,520
At 31 December 2018	3,997	12,371,311	410,376	12,785,684

Comparative information is not presented by virtue of the exemption given under MFRS 107.

8.10 Assets held for sale

Properties are presented as assets held for sale following the commitment of the Group to dispose it at the end of the financial year. Properties held for sale comprise of the following:

	<----- Audited ----->			
	2015 RM	2016 RM	2017 RM	2018 RM
Cost	-	-	836,782	-
Accumulated depreciation	-	-	(90,814)	-
	-	-	745,968	-

The properties held for sale have been pledged for banking facilities granted as disclosed in Section 8.14.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.11 Share capital**

	←———— Audited —————→			
	2015	2016	2017	2018
<i>Issued and paid up ordinary share capital</i>	Number of shares	Number of shares	Number of shares	Number of shares
- i-Stone Technology	750,000	750,000	750,000	750,000
- i-Stone International	200,000	200,000	200,000	200,000
- Bizit Systems Singapore	100,000	100,000	100,000	100,000
At beginning of year	1,050,000	1,050,000	1,050,000	1,050,000
Add: Issuance of shares by i-Stone Technology	-	-	-	421,875
Add: Issuance of shares pursuant to the incorporation of the Company	-	-	-	100
At end of year	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,471,975</u>
	RM	RM	RM	RM
- i-Stone Technology	750,000	750,000	750,000	750,000
- i-Stone International	500,200	500,200	500,200	500,200
- Bizit Systems Singapore	245,110	245,110	245,110	245,110
At beginning of year	1,495,310	1,495,310	1,495,310	1,495,310
Add: Issuance of shares by i-Stone Technology	-	-	-	4,219
Add: Issuance of shares pursuant to the incorporation of the Company	-	-	-	100
At end of year	<u>1,495,310</u>	<u>1,495,310</u>	<u>1,495,310</u>	<u>1,499,629</u>
<i>Non-cumulative redeemable preference shares classified as equity instruments:</i>	RM	RM	RM	RM
At beginning of year	100	200	200	5,000
- Issued	100	-	10,000	-
- Redeemed	-	-	(5,200)	(5,000)
At end of year	<u>200</u>	<u>200</u>	<u>5,000</u>	<u>-</u>
	<u>1,495,510</u>	<u>1,495,510</u>	<u>1,500,310</u>	<u>1,499,629</u>

- (a) For the purpose of this report, the total number of shares represent the aggregate number of issued and fully paid-up shares of all combining entities within the Group.
- (b) The holder of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one (1) vote per ordinary share at meetings of the Group. All ordinary shares rank pari-passu with regard to the residual assets of the Group.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.11 Share capital (cont'd)**

- (c) With the introduction of the new Companies Act, 2016 effective 31 January 2017, the concept of authorised share capital and par value of shares have been abolished.
- (d) The NCRPS issued shall confer on the holders thereof the following rights and privileges and subject to the following terms: -
- (i) The dividend to be paid shall be non-cumulative, the NCRPS are non-convertible and redeemable at the absolute discretion of the Directors at RM1.00 each for each fully paid redeemable preference shares.
- (ii) Any dividends to be paid to holders of the NCRPS are at the discretion of the Directors, save that 40% of any dividends are paid on the ordinary shares of i-Stone Technology, shall be payable to NCRPS holders.
- (iii) No right vote at any general meeting of i-Stone Technology, except for variation of holders' rights to the class of shares.
- (iv) Rank equally with other shares with regard to i-Stone Technology residual assets, except that only to the extent of the par value of the shares.

8.12 Reserves

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Non-distributable:				
Preference share reserve	2,280,000	2,280,000	800,000	-
Translation reserve	566,888	655,292	572,156	579,719
	<u>2,846,888</u>	<u>2,935,292</u>	<u>1,372,156</u>	<u>579,719</u>

(a) Preference share reserve

The preference share reserve comprises the cumulative fair value of employee services received for the issue of NCRPS. When the preference shares are redeemed, the amount from the preference share reserve is transferred to retained earnings.

(b) Translation reserve

The foreign currency translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the presentation currency of the Group. It is also used to record the exchange differences arising from monetary items which form part of the net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.13 Hire purchase payables**

	<----- Audited ----->			
	2015	2016	2017	2018
	RM	RM	RM	RM
Minimum hire purchase payments				
Not later than one year	105,517	103,248	142,632	152,928
Later than one year and not later than five years	242,402	177,053	187,191	292,449
	<u>347,919</u>	<u>280,301</u>	<u>329,823</u>	<u>445,377</u>
Less: Future interest charges	(26,375)	(19,851)	(21,714)	(35,001)
Present value of hire purchase payables	<u>321,544</u>	<u>260,450</u>	<u>308,109</u>	<u>410,376</u>
Current				
Not later than one year	92,885	93,082	130,622	136,581
Non-current				
Later than one year and not later than five years	228,659	167,368	177,487	273,795
	<u>321,544</u>	<u>260,450</u>	<u>308,109</u>	<u>410,376</u>

- (a) The hire purchase payables are secured against certain motor vehicles under hire purchase plans.
- (b) The effective interest rates (% per annum) at the end of each reporting period for hire purchase payables are as follows:

	<----- Audited ----->			
	2015	2016	2017	2018
	%	%	%	%
Hire purchase payables	<u>4.42 - 5.21</u>	<u>4.42 - 5.21</u>	<u>4.42 - 5.26</u>	<u>4.46 - 5.26</u>

The interest rates are fixed at the inception of the hire purchase arrangements.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.14 Loan and borrowings**

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Secured				
Term loan 1	482,771	452,844	425,102	-
Term loan 2	446,296	408,424	377,460	-
Term loan 3	1,316,040	1,274,544	1,229,668	-
Term loan 4	1,932,961	1,867,864	1,798,963	-
Term loan 5	302,674	353,880	327,092	300,365
Term loan 6	982,402	936,992	888,436	-
Term loan 7	373,204	361,246	348,829	-
Term loan 8	379,206	362,847	345,291	-
Term loan 9	-	86,020	-	-
Term loan 10	-	-	-	12,070,946
	<u>6,215,554</u>	<u>6,104,661</u>	<u>5,740,841</u>	<u>12,371,311</u>
Current				
Not later than one year	190,424	346,259	655,133	982,108
Non-current				
Later than one year and not later than five years	864,412	1,166,796	5,085,708	4,388,911
Later than five years	5,160,718	4,591,606	-	7,000,292
	<u>6,025,130</u>	<u>5,758,402</u>	<u>5,085,708</u>	<u>11,389,203</u>
Total term loans	<u>6,215,554</u>	<u>6,104,661</u>	<u>5,740,841</u>	<u>12,371,311</u>

- (a) Bank overdrafts was obtained for working capital purpose and secured by:
- (i) Fixed deposits pledged with the financial institutions as disclosed in Section 8.9;
 - (ii) Joint and several guarantee by Directors, namely Chan Kok San, Chin Chung Lek and Tee Sook Sing.
- The Group has not utilised this facility at the end of each reporting period.
- (b) Bankers' acceptance was obtained for working capital purpose and secured by:
- (i) The properties as disclosed in Section 8.1;
 - (ii) Joint and several guarantee by Directors, namely Chan Kok San, Chan Sai Kong, Chin Chung Lek and Tee Sook Sing.
- The Group has not utilised this facility at the end of each reporting period.
- (c) Term loan 1 to term loan 8 were obtained for the purpose of part financing the purchase of properties by i-Stone Technology and secured by:
- (i) The properties as disclosed in Sections 8.1, 8.2 and 8.10;
 - (ii) Fixed deposits pledged with the financial institutions as disclosed in Section 8.9;
 - (iii) Joint and several guarantee by Directors, namely Chan Kok San, Chan Sai Kong, Chin Chung Lek and Tee Sook Sing;

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.14 Loan and borrowings (cont'd)**

- (d) Term loan 9 was obtained for working capital purpose and guaranteed by the directors of P.A. Metal, namely Seah Mee Lai and Peck Yok Kee jointly and severally.
- (e) Term loan 10 was obtained for the purpose of part financing the purchase of properties by i-Stone Systems, which secured by:
- (i) The properties as disclosed in Sections 8.1;
 - (ii) Joint and several guarantee by Directors, namely Chan Kok San, Chin Chung Lek and Tee Sook Sing;
 - (iii) Corporate guarantee by i-Stone Technology.
- (f) The effective interest rates (% per annum) at the end of each reporting period for loan and borrowings are as follows:

	←———— Audited —————→			
	2015	2016	2017	2018
	%	%	%	%
Loan and borrowings	4.8 - 5.0	4.8 - 5.0	4.8 - 5.0	4.7 - 4.8

8.15 Deferred tax liabilities

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
At beginning of year	17,607	2,885	17,497	17,497
Recognised in profit or loss	(14,722)	(7,388)	-	454,931
Acquisition of subsidiary	-	22,000	-	4,819
At end of year	<u>2,885</u>	<u>17,497</u>	<u>17,497</u>	<u>477,247</u>
Represented by:				
Deferred tax assets	(12,405)	(26,560)	(26,560)	(11,721)
Deferred tax liabilities	15,290	44,057	44,057	488,968
	<u>2,885</u>	<u>17,497</u>	<u>17,497</u>	<u>477,247</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.15 Deferred tax liabilities (cont'd)**

The components of deferred tax assets and liabilities as at the end of each reporting period, prior to offsetting are as follows: -

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
<u>Deferred tax assets</u>				
<i>Unutilised tax losses and unabsorbed capital allowances</i>				
At beginning of year	-	-	(14,839)	(14,839)
Recognised in profit or loss	-	(14,839)	-	14,839
At end of year	-	(14,839)	(14,839)	-
 <i>Unrealised foreign exchange losses</i>				
At beginning of year	3,356	(12,405)	(11,721)	(11,721)
Recognised in profit or loss	(15,761)	684	-	-
At end of year	(12,405)	(11,721)	(11,721)	(11,721)
	<u>(12,405)</u>	<u>(26,560)</u>	<u>(26,560)</u>	<u>(11,721)</u>
 <u>Deferred tax liabilities</u>				
<i>Property, plant and equipment</i>				
At beginning of year	14,251	15,290	44,057	44,057
Acquisition of subsidiary	-	22,000	-	4,819
Recognised in profit or loss	1,039	6,767	-	440,092
At end of year	15,290	44,057	44,057	488,968

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.16 Trade and other payables**

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Trade payables:				
- Related parties	1,489,883	1,384,202	1,417,891	-
- Third parties	3,647,016	4,133,806	4,542,010	7,165,666
	<u>5,136,899</u>	<u>5,518,008</u>	<u>5,959,901</u>	<u>7,165,666</u>
Other payables:				
Sundry payables	255,562	662,181	214,203	716,878
Due to directors	80,091	391,003	591,525	3,997
Deposits received	979,013	2,196,590	2,015,821	1,708,945
Accruals	1,324,447	1,829,775	2,359,970	3,832,812
Provision for warranty	-	-	-	23,845
	<u>2,639,113</u>	<u>5,079,549</u>	<u>5,181,519</u>	<u>6,286,477</u>
Dividend payables	-	-	9,519,600	-
Total trade and other payables	<u><u>7,776,012</u></u>	<u><u>10,597,557</u></u>	<u><u>20,661,020</u></u>	<u><u>13,452,143</u></u>

- (a) Trade payables are non-interest bearing and the normal trade credit terms granted range from:

	←———— Audited —————→			
	2015	2016	2017	2018
Trade credit terms	<u>30 to 90 days</u>	<u>30 to 90 days</u>	<u>30 to 90 days</u>	<u>30 to 90 days</u>

- (b) Trade payables - related parties represented amount owing to companies in which Directors of the Group have interest in.
- (c) The amount due to Directors arose mainly from unsecured advances, which is non-interest bearing and repayable on demand.
- (d) Information on liquidity risks of trade and other payables is disclosed in Section 8.27 of this report.
- (e) The deposit received primarily from customer, which revenue is recognised at point in time at which the performance obligations are satisfied. The revenue will be recognised within 12 months from the end of the reporting period.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.17 Revenue**

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Revenue from contracts with customers				
Manufacturing	36,056,704	34,516,395	49,433,363	56,505,540
Distribution	8,067,541	8,610,887	10,947,963	11,086,000
	<u>44,124,245</u>	<u>43,127,282</u>	<u>60,381,326</u>	<u>67,591,540</u>
Timing of revenue recognised				
At a point in time at which the performance obligation is satisfied	<u>44,124,245</u>	<u>43,127,282</u>	<u>60,381,326</u>	<u>67,591,540</u>

8.18 Other income

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Government grants	165,132	-	24,616	-
Rental income	117,235	275,975	314,164	109,236
Dividend income	4,728	6,300	75,000	-
Interest income	5,910	14,895	14,163	3,287
Gain on disposal of property, plant and equipment	-	124,417	-	1,094,120
Loss on disposal of investment property	-	-	-	(31,465)
Gain on disposal of assets held for sale	-	-	-	477,574
Gain on disposal of other investments	-	80,607	-	357,590
Gain on remeasurement on associate stake	-	-	-	533,359
Gain on foreign exchange				
- Realised	137,273	54,656	140,923	101,393
- Unrealised	18,136	68,059	-	21,398
Other income	45,643	130,785	56,541	11,660
	<u>494,057</u>	<u>755,694</u>	<u>625,407</u>	<u>2,678,152</u>

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.19 Finance costs**

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Interest expenses:				
- Bank overdraft	9,437	25	9,656	31,793
- Bankers' acceptance	10,671	1,016	6,480	9,943
- Hire purchase	14,706	13,295	14,247	17,600
- Term loans	179,698	216,575	245,840	222,276
Bank commitment fee	2,186	4,497	1,241	1,775
	<u>216,698</u>	<u>235,408</u>	<u>277,464</u>	<u>283,387</u>

8.20 Profit before tax

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Depreciation charges				
- Depreciation of property, plant and equipment	402,295	538,140	564,681	820,797
- Depreciation of investment properties	112,556	130,575	105,421	38,470
	514,851	668,715	670,102	859,267
Directors' remuneration				
<i>Directors of the Company</i>				
- Fees	-	194,000	-	53,000
- Salaries and other emoluments	1,411,877	1,339,835	1,427,713	1,247,846
- Defined contribution plans	151,455	145,350	152,531	126,876
- Share based payment expenses	186,000	-	316,000	-
<i>Directors of subsidiaries or combining entities</i>				
- Salaries and other emoluments	195,877	287,857	395,891	583,739
- Defined contribution plans	-	688	13,570	40,597
	1,945,209	1,967,730	2,305,705	2,052,058

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.20 Profit before tax (cont'd)**

	←----- Audited -----→			
	2015 RM	2016 RM	2017 RM	2018 RM
Upkeep and maintenance:				
- Office maintenance	244,667	253,665	287,651	386,345
- Upkeep of property, plant and equipment	45,898	130,711	91,983	198,944
- Rental expenses	234,195	207,208	208,970	130,150
	524,760	591,584	588,604	715,439
Staff costs:				
- Short-term employment benefit	4,860,389	5,942,536	8,413,449	11,836,811
- Defined contribution plans	577,311	700,607	905,183	1,328,524
- Share based payment expenses	414,000	-	884,000	-
- Staff welfare and amenities	156,695	187,230	223,090	231,752
- Sub-contract wages	260,020	115,090	165,118	455,389
- Other benefits	542,898	621,127	976,951	1,177,755
	6,811,313	7,566,590	11,567,791	15,030,231
Bad debts written off	-	-	1,855	-
Fair value adjustment on other investments	20,065	-	-	-
Impairment loss on other investments	632,230	-	-	-
Impairment loss on goodwill	1,212,163	-	-	-
Loss on disposal of other investments	18,999	46,340	-	37,872
Loss on disposal of property, plant and equipment	-	623	-	-
Loss on foreign exchange				
- Realised	271,354	181,354	439,144	715,162
- Unrealised	88,946	87,820	4,012	53,833
Professional fees	219,828	248,428	285,451	1,588,078
Property, plant and equipment written off	-	2,404	1,432	229,838
Provision for warranty	-	-	-	23,845
Sales and marketing expenses	339,603	988,098	801,135	528,612

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.21 Tax expense**

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Current tax expense				
Malaysian tax:				
- current year	244,896	430,491	675,000	256,381
- over provision in prior years	(1,068)	(50,033)	-	(359,566)
Foreign tax:				
- current year	51,186	1,679	87,291	67,592
- (over)/under provision in prior years	-	(15,154)	2,647	-
- withholding tax	-	-	-	82,167
	<u>295,014</u>	<u>366,983</u>	<u>764,938</u>	<u>46,574</u>
Deferred tax expense				
- Relating to origination and reversal of temporary differences	(20,088)	(5,079)	-	454,931
- Under/(Over) provision in prior years	5,366	(2,309)	-	-
	<u>(14,722)</u>	<u>(7,388)</u>	<u>-</u>	<u>454,931</u>
Share of tax expense in associate	<u>79,114</u>	<u>42,593</u>	<u>74,800</u>	<u>-</u>
Total income tax expense	<u>359,406</u>	<u>402,188</u>	<u>839,738</u>	<u>501,505</u>

The Malaysian income tax is calculated at the statutory tax rate of 25% (2016: 24%; 2017: 24%, 2018: 24%) of estimated taxable profits for the financial years.

Tax expense for other taxation authorities are calculated at the rates prevailing in those respective jurisdictions.

Two of the combining entities have been granted the Pioneer Status incentives under the Promotion of Investments Act 1986. The combining entities will enjoy exemption from income tax on its statutory income from pioneer activities for a period of 5 years, from 5 December 2013 to 4 December 2018 and 1 January 2017 to 31 December 2021 respectively. One of the combining entities has been granted the MSC-Malaysia status.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.21 Tax expense (cont'd)**

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

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Profit before tax	4,451,432	5,109,449	9,389,793	11,971,500
Tax at statutory tax rate of 25% (2016: 24%, 2017: 24%, 2018: 24%)	1,112,900	1,226,300	2,253,300	2,873,000
Tax effects in respect of:				
Non-allowable expenses	740,322	211,350	400,800	934,250
Non-taxable income	(10,518)	(99,952)	(7,509)	(586,600)
Different tax rates in foreign jurisdiction	(147,184)	10,752	(61,300)	(41,687)
Different tax rates for small and medium companies in Malaysia	(27,254)	(57,550)	(63,300)	(86,800)
Income tax exemption under Pioneer Status	(1,121,305)	(863,809)	(1,607,000)	(2,212,400)
Tax savings for exemption on increase in chargeable business income	-	-	(58,800)	-
Statutory tax exemption in Singapore	(270,967)	-	(93,900)	(100,859)
Under/(Over) provision in prior years	4,298	(67,496)	2,647	(359,566)
Share of tax expense in associate	79,114	42,593	74,800	-
Withholding tax	-	-	-	82,167
Tax expense for the financial year	359,406	402,188	839,738	501,505

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.22 Earnings per share****(a) Basic**

Basic earnings per share for the reporting periods is calculated by dividing the profit for the financial year attributable to owners of the Company by the expected number of ordinary shares of the i-Stone upon completion of the Listing.

	←————— Audited —————→			
	2015	2016	2017	2018
Profit attributable to owners of the Company (RM)	<u>4,010,209</u>	<u>4,747,125</u>	<u>8,215,676</u>	<u>11,247,630</u>
Expected number of shares upon completion of the Internal Restructuring (unit)	<u>977,181,200</u>	<u>977,181,200</u>	<u>977,181,200</u>	<u>977,181,200</u>
Basic earnings per share (sen)	<u>0.41</u>	<u>0.49</u>	<u>0.84</u>	<u>1.15</u>

(b) Diluted

Diluted earnings per share equals basic earnings per share because there are no potentially dilutive instruments in existence as at the end of each reporting period.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.23 Dividends**

	Dividend per share	Amount of dividend RM
In respect of FYE 31 December 2015		
Interim single-tier tax exempt dividend of i-Stone Technology		
- Ordinary dividend	RM1.20	900,000
- Preference dividend for 100 shares	RM6,000	600,000
Interim single-tier tax exempt dividend of Bizit Systems Singapore		
- Ordinary dividend	SGD0.60	182,136
		<u>1,682,136</u>
In respect of FYE 31 December 2016		
Interim single-tier tax exempt dividend of i-Stone Technology		
- Ordinary dividend	RM1.60	1,200,000
- Preference dividend for 200 shares	RM4,000	800,000
Interim single-tier tax exempt dividend of Bizit Systems Singapore		
- Ordinary dividend	SGD1.40	434,223
		<u>2,434,223</u>
In respect of FYE 31 December 2017		
Interim single-tier tax exempt dividend of i-Stone Technology		
- Ordinary dividend	RM11.20	8,400,000
- Preference dividend for 5,000 shares	RM240	1,200,000
- Preference dividend for 200 shares	RM2,000	400,000
Interim single-tier tax exempt dividend of Bizit Systems Singapore		
- Ordinary dividend	SGD6	1,823,520
		<u>11,823,520</u>
In respect of FYE 31 December 2018		
Interim single-tier tax exempt dividend of i-Stone Technology		
- Ordinary dividend	RM3.33	2,500,000
		<u>2,500,000</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.24 Related party disclosures**

(a) Identities of related parties

Parties are considered to be related to the Group if the Group have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties could be individual or other entities.

The group has related party relationship with its combining entities, subsidiaries, associates and key management personnel. Related parties of the Group include companies in which Director has substantial financial interest and is common director.

(b) In addition to the information detailed elsewhere in the financial statements, the Group entered into following related party transactions:

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
A. Associates				
<i>Combining entities</i> ⁽¹⁾				
Sale of goods	30,423	61,615	128,125	-
Purchases of goods	3,755,332	3,095,212	4,169,174	-
Rental expenses	-	14,603	16,171	-
<i>Non-combining entities</i>				
Sale of goods	62,752	2,100	59,103	-
Professional fee received	-	-	133,456	-
Advances to	40,000	-	1,229,450	25,000
B. Subsidiaries				
<i>Non-combining entities</i>				
Sale of goods	-	70,518	19,131	2,600
Purchases of goods	-	375,606	414,450	61,848
Rental income	-	12,500	13,900	-
Shared cost	-	10,619	5,959	-
Rental expenses	54,000	54,000	54,000	31,500
Advances to	150,000	387,200	-	-

(1) i-Stone Engineering is an associate of i-Stone Technology throughout the financial years of 2015 to 2017.

(2) Non-combining entities represent the companies as disclosed in Section 8.5 of this Report.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.24 Related party disclosures (cont'd)**

(b) In addition to the information detailed elsewhere in the financial statements, the Group entered into following related party transactions: (cont'd)

	←———— Audited —————→			
	2015 RM	2016 RM	2017 RM	2018 RM
C. Entities in which directors have interest				
Sale of goods	411,714	5,082	11,056	-
Purchases of goods	1,704,354	697,783	207,709	-
Services performed	-	14,151	-	-
Shared cost	-	900	-	-
Rental income	10,220	9,005	11,212	8,076
Rental expenses	105,603	111,656	115,859	119,377
Advances to	-	502,000	287,204	-
D. Directors of the company				
Acquisition of non-controlling interest in a subsidiary	-	-	-	9,026
Sale of properties	-	-	-	6,460,000
Sale of non-combining entity	-	-	-	160,000
Sale of other investments	-	-	-	4
Advances to	587,401	995,200	1,081,204	290,325
E. Directors of subsidiaries				
Acquisition of non-controlling interest in a subsidiary	-	-	-	9,025
Sale of property	-	-	-	1,300,000
Sale of other investments	-	-	-	1
Rental expenses	-	40,000	96,000	72,000
Advances to/Repayment to	191,465	202,184	-	301,200

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.24 Related party disclosures (cont'd)**

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group.

The remunerations of Directors and key management personnel during the reporting period are as follows:

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Directors of the Company				
- Fees	-	194,000	-	53,000
- Salaries and other emoluments	1,411,877	1,339,835	1,427,713	1,247,846
- Defined contribution plans	151,455	145,350	152,531	126,876
- Share based payment expenses	186,000	-	316,000	-
	<u>1,749,332</u>	<u>1,679,185</u>	<u>1,896,244</u>	<u>1,427,722</u>
Directors of subsidiaries				
- Salaries and other emoluments	195,877	287,857	395,891	583,739
- Defined contribution plans	-	688	13,570	40,597
	<u>195,877</u>	<u>288,545</u>	<u>409,461</u>	<u>624,336</u>
Key management personnel				
- Salaries and other emoluments	-	-	-	588,040
- Defined contribution plans	-	-	-	75,814
- Other benefits	-	-	-	4,463
- Estimated monetary value of benefit-in-kind	-	-	-	13,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>681,317</u>

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)

8.25 Operating segments

Operating segments are prepared in a manner consistent with the internal reporting provided to the common controlling shareholders of the Group ("Management") as its operating decision maker in order to allocate resources to segments and to assess their performance.

For management purposes, the entities within the Group are organised into business units based on their business activities, as described below: -

Manufacturing-automation business ("Manufacturing")

- (i) Design, manufacturing and modification of specialised automation machines
- (ii) Maintenance and technical support services
- (iii) Provision of DMS

Other related products and services ("Distribution")

- (i) Distribution of manufacturing automation hardware and software
- (ii) Design and fabrication of metal panels and frames and precision parts

Management monitors the operating results of its business units separately for the purpose of making decisions for resource allocation and performance assessment.

Inter-segment revenue is priced along the same lines as sales to external customers and is eliminated in the combined financial statements. These policies have been applied consistently throughout the reporting periods.

Segment assets exclude investment properties, investment in associates, other investments, goodwill on consolidation, assets held for sale, dividend receivables, amount due from shareholders and related parties.

Segment liabilities exclude current tax liabilities, deferred tax liabilities, dividend payables and amount due to Directors.

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.25 Operating segments (cont'd)**

<u>Audited</u> 2015	Manufacturing RM	Distribution RM	Others RM	Total RM
Revenue				
External sales	36,056,704	8,067,541	-	44,124,245
Inter-segment	9,200,533	1,950,805	-	11,151,338
Results				
Segment results	5,333,443	749,380	(1,753,955)	4,328,868
Finance costs				(216,698)
Share of results of an associate				339,262
Tax expense				(359,406)
Net profit for the year				4,092,026
Other material non-cash items:				
Impairment loss on goodwill				1,212,163
Impairment loss on other investments				632,230
Other information				
Segment assets	16,125,896	2,417,497	-	18,543,393
Unallocated corporate assets				9,381,046
				27,924,439
Segment liabilities	7,436,550	580,915	-	8,017,465
Unallocated corporate liabilities				6,342,672
				14,360,137
	100			
	364			

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.25 Operating segments (cont'd)**

<u>Audited</u>	<u>Manufacturing</u>	<u>Distribution</u>	<u>Others</u>	<u>Total</u>
<u>2016</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>	<u>RM</u>
<u>Revenue</u>				
External sales	34,516,395	8,610,887	-	43,127,282
Inter-segment	9,093,914	1,568,770	-	10,662,684
<u>Results</u>				
Segment results	4,317,007	584,301	241,842	5,143,150
Finance costs				(235,408)
Share of results of an associate				201,707
Tax expense				(402,188)
Net profit for the year				4,707,261
<u>Other information</u>				
Segment assets	22,281,669	2,563,496	-	24,845,165
Unallocated corporate assets				8,560,883
				33,406,048
Segment liabilities	10,009,953	457,051	-	10,467,004
Unallocated corporate liabilities				6,742,283
				17,209,287
	101			
	365			

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.25 Operating segments (cont'd)**

(a) Geographical information

Segment revenue is based on geographical location from which the sale transactions originated.

	←----- Audited ----->			
	2015	2016	2017	2018
	RM	RM	RM	RM
Revenue from external customers				
Malaysia	31,138,454	32,342,146	37,301,114	52,845,931
Singapore	9,438,106	8,614,661	10,235,689	8,427,021
Indonesia	415,265	598,211	434,591	777,221
Philippines	1,265,641	875,296	11,515,826	4,594,793
Taiwan	1,742,142	552,656	894,106	755,863
Others	124,637	144,312	-	190,711
	<u>44,124,245</u>	<u>43,127,282</u>	<u>60,381,326</u>	<u>67,591,540</u>

(b) Major customers

The following are major customers with revenue equal or more than ten percent (10%) of revenue of the Group:

	←----- Audited ----->			
	2015	2016	2017	2018
	RM	RM	RM	RM
Dyson group of companies	23,865,666	26,535,949	40,131,010	44,256,159
	<u>23,865,666</u>	<u>26,535,949</u>	<u>40,131,010</u>	<u>44,256,159</u>

Dyson group of companies consist of Dyson Manufacturing Sdn Bhd, Dyson Operations Pte Ltd and Dyson Electronics Pte Ltd – Philippine Branch.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.26 Financial Instruments****(a) Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic condition. To maintain or adjust capital structure, the Group may adjust the dividend payment, returning of capital to shareholders or issuing new shares.

	← Audited →			
	2015	2016	2017	2018
	RM	RM	RM	RM
Trade payables	5,136,899	5,518,008	5,959,901	7,165,666
Other payables	2,639,113	5,079,549	5,181,519	6,286,477
Dividend payables	-	-	9,519,600	-
Loan and borrowings	6,215,554	6,104,661	5,740,841	12,371,311
Hire purchase payables	321,544	260,450	308,109	410,376
Less: Cash and bank balances	<u>(3,581,540)</u>	<u>(6,439,833)</u>	<u>(5,061,536)</u>	<u>(3,800,237)</u>
Net debt	<u>10,731,570</u>	<u>10,522,835</u>	<u>21,648,434</u>	<u>22,433,593</u>
 Total equity	 <u>13,564,302</u>	 <u>16,196,761</u>	 <u>14,038,624</u>	 <u>23,379,572</u>
 Debt-to-equity ratio	 <u>79%</u>	 <u>65%</u>	 <u>154%</u>	 <u>96%</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.26 Financial instruments (cont'd)****(b) Classification of financial instruments**

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal account policies in Section 6 describe how the classes of financial instruments are measured, and how income and expense, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instruments to which they are assigned, and therefore by the measurement basis:

- (i) Financial assets measured at fair value through profit or loss ('FVTPL');
- (ii) Financial assets measured at amortised cost ('AC');
- (iii) Other financial liabilities ('OFL')

	Carrying amount RM	AC/(OFL) RM	FVTPL RM
2015			
Financial assets			
Other investments	631,491	253,791	377,700
Trade receivables	9,614,598	9,614,598	-
Other receivables (exclude prepayment)	1,581,993	1,581,993	-
Cash and bank balances	3,581,540	3,581,540	-
	<u>15,409,622</u>	<u>15,031,922</u>	<u>377,700</u>
Financial liabilities			
Trade payables	(5,136,899)	(5,136,899)	-
Other payables	(2,639,113)	(2,639,113)	-
Loan and borrowings	(6,215,554)	(6,215,554)	-
Hire purchase payables	(321,544)	(321,544)	-
	<u>(14,313,110)</u>	<u>(14,313,110)</u>	<u>-</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.26 Financial instruments (cont'd)****(b) Classification of financial instruments (cont'd)**

	Carrying amount RM	AC/(OFL) RM	FVTPL RM
2016			
Financial assets			
Other investments	280,420	280,420	-
Trade receivables	12,152,575	12,152,575	-
Other receivables (exclude prepayment)	1,189,567	1,189,567	-
Cash and bank balances	6,439,833	6,439,833	-
	<u>20,062,395</u>	<u>20,062,395</u>	<u>-</u>
Financial liabilities			
Trade payables	(5,518,008)	(5,518,008)	-
Other payables	(5,079,549)	(5,079,549)	-
Loan and borrowings	(6,104,661)	(6,104,661)	-
Hire purchase payables	(260,450)	(260,450)	-
	<u>(16,962,668)</u>	<u>(16,962,668)</u>	<u>-</u>
2017			
Financial assets			
Other investments	1,779,900	1,779,900	-
Trade receivables	15,747,357	15,747,357	-
Other receivables (exclude prepayment)	2,968,587	2,968,587	-
Cash and bank balances	5,061,536	5,061,536	-
	<u>25,557,380</u>	<u>25,557,380</u>	<u>-</u>
Financial liabilities			
Trade payables	(5,959,901)	(5,959,901)	-
Other payables	(5,181,519)	(5,181,519)	-
Dividend payables	(9,519,600)	(9,519,600)	-
Loan and borrowings	(5,740,841)	(5,740,841)	-
Hire purchase payables	(308,109)	(308,109)	-
	<u>(26,709,970)</u>	<u>(26,709,970)</u>	<u>-</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.26 Financial instruments (cont'd)****(b) Classification of financial instruments (cont'd)**

	Carrying amount RM	AC/(OFL) RM	FVTPL RM
2018			
Financial assets			
Trade receivables	12,217,887	12,217,887	-
Other receivables (exclude prepayment)	597,696	597,696	-
Cash and bank balances	3,800,237	3,800,237	-
	<u>16,615,820</u>	<u>16,615,820</u>	<u>-</u>
Financial liabilities			
Trade payables	(7,165,666)	(7,165,666)	-
Other payables (exclude provision for warranty)	(6,262,632)	(6,262,632)	-
Loan and borrowings	(12,371,311)	(12,371,311)	-
Hire purchase payables	(410,376)	(410,376)	-
	<u>(26,209,985)</u>	<u>(26,209,985)</u>	<u>-</u>

(c) Fair value hierarchy

As at the end of each of the reporting period, there were no financial instruments carried at fair values, except for other investments of RM377,700 as at 31 December 2015.

The fair value of other investments are arrived at the market value at the end of reporting period, and categorised as Level 1 as described in Section 6.2.22 of this Report.

(d) Fair values of financial instruments

The following summarises the methods used to determine the fair values of the financial instruments:

- (i) The carrying amounts of short-term receivables and payables, cash and cash equivalents and current portion of loan and borrowings and hire purchase payables approximate their fair values due to the relatively short-term maturity of these financial instruments and insignificant impact of discounting.
- (ii) The carrying amount of the non-current portion of term loans that carry floating interest rates approximate their fair value as they are re-priced to market interest rates on or near the reporting date.
- (iii) The carrying amount of hire purchase payables are considered to be reasonably close to its fair value as the effective interest rates of the hire purchase payables also approximate to the observable current market interest rates.

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.27 Financial risk management objectives and policies**

The Management has overall responsibility for the establishment and oversight of the Group's risk management framework. The Management are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Market risk*(i) Foreign Currency Exchange Risk*

The Group is exposed to foreign currency exchange risk on transactions and balances that were denominated in foreign currencies. The currencies gave rise to this risk were primarily in Singapore Dollar ("SGD") and United States Dollar ("USD"). Foreign currency risk was monitored closely and managed to an acceptable level. The combining entity exposures to foreign currency are as follows:

	SGD RM	USD RM	Others RM	Total RM
2015				
Receivables	2,158,413	1,945,451	-	4,103,864
Cash and bank balances	464,834	840,011	704	1,305,549
Payables	(1,504,201)	(571,001)	(25,092)	(2,100,294)
Net exposure	<u>1,119,046</u>	<u>2,214,461</u>	<u>(24,388)</u>	<u>3,309,119</u>
2016				
Receivables	2,060,957	2,766,781	-	4,827,738
Cash and bank balances	1,680,101	828,051	-	2,508,152
Payables	(1,768,273)	(330,672)	(26,055)	(2,125,000)
Net exposure	<u>1,972,785</u>	<u>3,264,160</u>	<u>(26,055)</u>	<u>5,210,890</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.27 Financial risk management objectives and policies (cont'd)****(a) Market risk (cont'd)***(i) Foreign Currency Exchange Risk (cont'd)*

	SGD RM	USD RM	Others RM	Total RM
2017				
Receivables	3,006,989	6,012,900	-	9,019,889
Cash and bank balances	1,383,736	400,390	1,022	1,785,148
Payables	(2,517,503)	(1,187,568)	7,959	(3,697,112)
Net exposure	<u>1,873,222</u>	<u>5,225,722</u>	<u>8,981</u>	<u>7,107,925</u>
2018				
Receivables	1,540,449	2,314,371	-	3,854,820
Cash and bank balances	924,511	736,257	449	1,661,217
Payables	(1,252,465)	(483,844)	(30,355)	(1,766,664)
Net exposure	<u>1,212,495</u>	<u>2,566,784</u>	<u>(29,906)</u>	<u>3,749,373</u>

Foreign currency exchange risk sensitivity analysis

A 10% strengthening of the RM against SGD at the end of the reporting periods would have decreased profit before tax by approximately 2015: RM112,000 (2016: RM197,000; 2017: RM187,000; 2018: RM121,000). A 10% weakening of the RM against SGD would have had an equal but opposite effect on the profit before tax.

A 10% strengthening of the RM against USD at the end of the reporting periods would have decreased profit before tax by approximately 2015: RM221,000 (2016: RM326,000; 2017: RM523,000; 2018: RM257,000). A 10% weakening of the RM against USD would have had an equal but opposite effect on the profit before tax.

The above effects assume that all other variables remain constant.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.27 Financial risk management objectives and policies (cont'd)****(a) Market risk (cont'd)***(ii) 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.

The Group manage the net exposure to interest rate risks by maintaining sufficient lines of credit with acceptable lending costs and by monitoring the exposure to such risks on an ongoing basis. The Management does not enter into interest rate hedging transactions as the cost of such instruments outweighs the potential risk of interest rate fluctuation.

The interest rate profile of the Group's significant interest-bearing financial instruments, based on the carrying amounts as at the end of the reporting periods were as follow:

	←----- Audited -----→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Fixed rate instruments				
<i>Financial assets</i>				
Deposits placed with financial institutions	575,071	380,330	-	1,001,000
<i>Financial liabilities</i>				
Hire purchase payables	(321,544)	(260,450)	(308,109)	(410,376)
	<u>253,527</u>	<u>119,880</u>	<u>(308,109)</u>	<u>590,624</u>
Floating rate instruments				
<i>Financial liabilities</i>				
Loan and borrowings	<u>(6,215,554)</u>	<u>(6,104,661)</u>	<u>(5,740,841)</u>	<u>(12,371,311)</u>

Interest rate risk sensitivity analysis

Sensitivity analysis is not disclosed on fixed rate financial liabilities as fixed rate financial liabilities are not exposed to interest rate risk and are measured at amortised cost.

A 100 basis points strengthening in the interest rate of floating rate instruments as at the end of the reporting periods would have decreased in profit before tax by 2015: RM62,200; 2016: RM61,000; 2017: RM57,400; 2018: RM123,700. A 100 basis points weakening would have had an equal but opposite effect on the profit before tax. This assumes that all other variables remain constant.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.27 Financial risk management objectives and policies (cont'd)****(b) Credit risk**

Credit risk is the risk of a financial loss to the Group that may arise if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its receivables from customers and advances to related parties. For other financial assets (including cash and bank balances), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

(i) Receivables

The Group's exposure to credit risk is 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 management 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 ratings, 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 management.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 120 days for customers.

More than 70% of the Group's customers have been transacting with the Group for over four years, and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including their geographic location and trading history with the Group and existence of previous financial difficulties.

The Group monitors the economic environment countries in which customers operate and takes actions to limits its exposure to customers in countries experiencing particular economic volatility.

Credit risk concentration profile

The Group's major concentration of credit risk relates to the amount owing by one (1) customer which constituted 2015: 57% (2016: 69%; 2017: 76%; 2018: 41%) of its trade receivables as at the end of each reporting period.

The Group determines concentration of risk by monitoring its trade receivable individually on an ongoing basis.

Exposure to credit risk

As the Group does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of the financial assets as at the end of the reporting period. The Group does not have trade receivable for which no loss allowance is recognised because of collateral.

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.27 Financial risk management objectives and policies (cont'd)****(b) Credit risk (cont'd)****(i) Receivables (cont'd)**

At 31 December 2018, the exposure to credit risk for trade receivables by geographical region was as follows:

	2018 RM
Primary geographical markets	
Malaysia	8,198,781
Singapore	1,980,134
Philippines	1,205,798
Taiwan	766,211
Others	66,963
	<u>12,217,887</u>

A summary of the Group's exposure to credit risk for trade receivables is as follows:

	2018 Not credit- impairment RM	2018 Credit- impairment RM
Major customer	5,011,845	-
Other customers:		
- Four or more years' trading history with the Group	5,796,712	-
- Less than four years' trading history with the Group	1,409,330	-
Total gross carrying amount	<u>12,217,887</u>	-
Less: Allowance for impairment losses	-	-
	<u>12,217,887</u>	<u>-</u>

12. ACCOUNTANTS' REPORT (cont'd)

i-Stone Group Berhad
(1273151-K)
Accountants' Report

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.27 Financial risk management objectives and policies (cont'd)****(b) Credit risk (cont'd)****(i) Receivables (cont'd)**Comparative information under MFRS 139

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the aging of trade receivables that were past due but not impaired are disclosed in Section 8.8 of this Report.

Expected credit loss assessment for customers as at 31 December 2018

The Group provides for lifetime expected credit loss for all trade receivables. Expected loss rate are incorporated past and forward-looking information such as forecast of economic conditions, geographic region, age of customer relationship and type of product purchased.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	Expected loss rate	Gross carrying amount RM	Loss allowance RM	Credit- impairment
2018				
Current (Not past due)	-	10,866,661	-	No
Past due 1 to 30 days	-	149,670	-	No
Past due 31 to 60 days	-	908,475	-	No
Past due 61 to 90 days	-	10,008	-	No
Past due more than 90 days	-	283,073	-	No
		<u>12,217,887</u>	-	

Expected credit loss is considered to be remote as the Group does not have historical material bad debt.

Credit risk on other receivables are mainly arising from amount due by related parties, sundry debtors and deposit receivables. The Group monitors the repayment on an individual basis. As at the end of the reporting period, the Group did not recognised any allowance for impairment losses.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.27 Financial risk management objectives and policies (cont'd)****(b) Credit risk (cont'd)****(ii) Cash and cash equivalents**

The cash and cash equivalents are mainly held with bank and financial institution counterparties, which are licensed by Bank Negara Malaysia under Financial Services Act 2013 and Monetary Authority of Singapore under Banking Act. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the creditworthiness of the counterparties.

(iii) Financial guarantee

i-Stone Technology provided unsecured financial guarantees to financial institutions in respect of banking facilities granted to companies in which the Directors of i-Stone Technology have financial interests. i-Stone Technology monitors on an ongoing basis the results of the said companies and repayments made by the said companies. As at the end of each reporting period, there was no indication that the said companies would default on repayment. The corporate guarantees have not been recognised since the fair value on initial recognition was not material.

	←———— Audited —————→			
	2015	2016	2017	2018
	RM	RM	RM	RM
Corporate guarantees given to financial institutions	1,280,000	1,280,000	1,280,000	-

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.27 Financial risk management objectives and policies (cont'd)****(c) Liquidity risk**

Liquidity risk arises mainly from general funding and business activities. The Group practices prudent risk management by maintaining sufficient cash balances, banking facilities and internally generated funds.

Analysis of financial instruments by remaining contractual maturities

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on undiscounted contractual cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):

	Carrying amount RM	Undiscounted contractual cash flows RM	On demand or within one year RM	Two to five years RM	More than five years RM
Financial liabilities					
2015					
Trade payables	5,136,899	5,136,899	5,136,899	-	-
Other payables	2,639,113	2,639,113	2,639,113	-	-
Loan and borrowings	6,215,554	9,215,094	530,232	2,120,928	6,563,934
Hire purchase payables	321,544	347,919	105,517	242,402	-
	<u>14,313,110</u>	<u>17,339,025</u>	<u>8,411,761</u>	<u>2,363,330</u>	<u>6,563,934</u>
2016					
Trade payables	5,518,008	5,518,008	5,518,008	-	-
Other payables	5,079,549	5,079,549	5,079,549	-	-
Loan and borrowings	6,104,661	8,774,862	620,232	2,120,928	6,033,702
Hire purchase payables	260,450	280,301	103,248	177,053	-
	<u>16,962,668</u>	<u>19,652,720</u>	<u>11,321,037</u>	<u>2,297,981</u>	<u>6,033,702</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.27 Financial risk management objectives and policies (cont'd)****(c) Liquidity risk (cont'd)**

	Carrying amount RM	Undiscounted contractual cash flows RM	On demand or within one year RM	Two to five years RM	More than five years RM
Financial liabilities					
2017					
Trade payables	5,959,901	5,959,901	5,959,901	-	-
Other payables	5,181,519	5,181,519	5,181,519	-	-
Dividend payables	9,519,600	9,519,600	9,519,600	-	-
Loan and borrowings	5,740,841	7,995,661	923,451	7,072,210	-
Hire purchase payables	308,109	329,823	142,632	187,191	-
	<u>26,709,970</u>	<u>28,986,504</u>	<u>21,727,103</u>	<u>7,259,401</u>	<u>-</u>
2018					
Trade payables	7,165,666	7,165,666	7,165,666	-	-
Other payables	6,262,632	6,262,632	6,262,632	-	-
Loan and borrowings	12,371,131	15,559,905	1,536,888	6,147,552	7,875,465
Hire purchase payables	410,376	445,377	152,928	292,449	-
	<u>26,209,805</u>	<u>29,433,580</u>	<u>15,118,114</u>	<u>6,440,001</u>	<u>7,875,465</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)**i-Stone Group Berhad
(1273151-K)
Accountants' Report****8. HISTORICAL FINANCIAL INFORMATION (CONT'D)****8.28 Acquisition of subsidiaries and non-controlling interests****(a) Acquisition of subsidiaries**

On 23 May 2016, i-Stone Technology entered into a Sale and Purchase agreement to acquire 37,800 ordinary shares in P.A. Metal, representing 60% of the issued shares of the subsidiary, for a total cash consideration of RM378,000.

On 1 January 2018, i-Stone Technology entered into a Sale and Purchase agreement to acquire additional 75,000 ordinary shares in i-Stone Engineering, representing 30% of the issued shares of the company, for a total cash consideration of RM750,000. Upon acquisition, the Group obtained control over the company and i-Stone Engineering, from an associate becoming a subsidiary.

The fair value of the assets acquired and the liabilities assumed are as follows: -

	P.A. Metal 2016 RM	i-Stone Engineering 2018 RM
Property, plant and equipment	602,957	609,009
Inventories	314,419	-
Trade and other receivables	516,191	1,553,835
Cash and cash equivalents	50,019	549,647
Trade and other payables	(694,606)	(1,328,815)
Borrowings	(143,406)	-
Hire purchase payables	-	(94,520)
Current tax liabilities	(1,079)	(478)
Deferred tax liabilities	(22,000)	(4,819)
Net assets assumed	622,495	1,283,859
Non-controlling interest	(248,998)	(385,158)
Gain on remeasurement of investment in subsidiary	-	(533,359)
Derecognition of equity interest in associate	-	(466,641)
Goodwill on consolidation	4,503	851,299
Purchase consideration	378,000	750,000
Cash and cash equivalents acquired	(50,019)	(549,647)
Acquisition of subsidiary, net of cash acquired	<u>327,981</u>	<u>200,353</u>

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)**8.28 Acquisition of subsidiaries and non-controlling interests****(b) Acquisition of non-controlling interests**

On 17 July 2018, i-Stone Technology acquired an additional 5% equity interest in Bizit Systems Malaysia from a third party for a cash consideration of RM4,512. On 2 August 2018, i-Stone Technology acquired another 20% equity interest in Bizit Systems Malaysia from its common controlling shareholders for a total cash consideration of RM18,051. i-Stone Technology recognised a decrease in non-controlling interests of RM15,398 and a decrease in retained profits of RM7,165.

8.29 Capital commitments

	2018
<i>Property, plant and equipment</i>	
Contracted but not provided for	112,000
Approved but not contracted for	6,800,000
	<u>6,912,000</u>

8.30 Significant event

During the FYE 2018, a subsidiary of i-Stone Technology, namely i-Stone Systems entered into a sale and purchase agreement for the acquisitions of the following properties for a total consideration of RM15,420,636.

- a piece of leasehold land held under HS(D) 50239, PTD 87654, Mukim of Senai, District of Kulai, Johor together with one storey factory with a two storey office building used as office and manufacturing space bearing the postal address of 12-2, Jalan Persiaran Teknologi, Taman Teknologi Johor, 81400 Senai, Johor; and
- a piece of leasehold land held under HS(D) 50240, PTD 87663, Mukim of Senai, District of Kulai, Johor, being a vacant land with the postal address of PTD 87663, Jalan Persiaran Teknologi, Taman Teknologi Johor, 81400 Senai, Johor.

The acquisitions of the properties are completed as at the date of this Report.

[The remaining of this page is left blank intentionally]

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

**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

8. HISTORICAL FINANCIAL INFORMATION (CONT'D)

8.31 Subsequent events

(a) Acquisition of companies

i-Stone Technology entered into the following conditional share purchase agreements on 31 October 2018 with the selling shareholders to acquire the entire equity interest, as detailed below:

- (i) to acquire the remaining 10% equity interest in Bizit Systems Malaysia for a purchase consideration of RM30,800.96, satisfied via the issuance of 2,319 new i-Stone Technology shares at an issue price of RM13.282 each.
- (ii) to acquire the remaining 30% equity interest in i-Stone Engineering for a purchase consideration of RM440,285.02, satisfied via the issuance of 33,149 new i-Stone Technology shares at an issue price of RM13.282 each.
- (iii) to acquire the remaining 40% equity interest in P.A. Metal for a total purchase consideration of RM349,927, satisfied by the issuance of 26,346 new i-Stone Technology shares at an issue price of RM13.282 each.
- (iv) to acquire the entire 100% equity interest in i-Stone International for a cash consideration of RM534,019 (equivalent to SGD180,478.89, based on the exchange rate of SGD1.00:RM2.9589).
- (v) to acquire the entire 100% equity interest in Bizit Systems Singapore for a total purchase consideration of RM2,259,303.60 (equivalent to SGD 763,561.99, based on the exchange rate of SGD1.00:RM2.9589), satisfied via the issuance of 17,010 new i-Stone Technology shares at an issue price of RM13.282 each and a cash consideration of RM2,033,376.78.

Upon completion of the acquisition on 30 April 2019, all the above companies become wholly-owned subsidiaries of i-Stone Technology thereafter.

(b) Acquisition of i-Stone Technology

The Company entered into a conditional share purchase agreement dated 31 October 2018 for the acquisition of the entire equity interest in i-Stone Technology for a purchase consideration of RM16,612,079, satisfied by the issuance of 977,181,100 new ordinary shares in the Company at an issue price of approximately RM0.017 per i-Stone share. The Acquisition of i-Stone Technology is completed on 2 May 2019.

[The remaining of this page is left blank intentionally]

12. ACCOUNTANTS' REPORT (cont'd)


**i-Stone Group Berhad
(1273151-K)
Accountants' Report**

i-STONE GROUP BERHAD

STATEMENT BY DIRECTORS

We, Chan Kok San and Tee Sook Sing, being two of the Directors of i-Stone Group Berhad, state that, in the opinion of the Directors, the historical financial information set out on pages 4 to 120 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the combined financial position of the Group as at 31 December 2015, 2016, 2017 and 2018 and of their financial performance, changes in equity and cash flows for the financial years ended 31 December 2015, 2016, 2017 and 2018.

Signed on behalf of the directors on 29 May 2019



Chan Kok San



Tee Sook Sing

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION



ECOVIS MALAYSIA PLT (LLP0003185-LCA) & (AF 001825)
(f.k.a. ECOVIS AHL PLT)
Chartered Accountants, Johor Bahru, Malaysia

Johor Bahru, Malaysia
Phone : +607 562 9000
Fax No: +607 562 9090

The Board of Directors
i-Stone Group Berhad
12-2, Jalan Persiaran Teknologi,
Taman Teknologi Johor,
81400 Senai,
Johor Darul Ta'zim, Malaysia

29 May 2019

Dear Sirs

**i-STONE GROUP BERHAD ("i-STONE" OR "THE COMPANY")
REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED
STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

Initial public offering and listing of and quotation for 1,221,477,200 ordinary shares in i-Stone Group Berhad ("i-Stone Shares") on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities")

We have completed our assurance engagement to report on the compilation of Pro Forma Consolidated Statements of Financial Position of i-Stone and its subsidiaries (collectively known as "the Group" or "i-Stone Group") as at 31 December 2018 together with the related notes (as set out in the Appendix 1 which we have stamped for the purpose of identification) prepared by the Board of Directors for inclusion in the prospectus of i-Stone in connection with the initial public offering of ordinary shares in the Company ("IPO") and the listing of and quotation for the entire issued share capital of i-Stone on the ACE Market of Bursa Securities ("the Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are set out in Note 2, and are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines").

The Pro Forma Consolidated Statements of Financial Position have been compiled by the Board of Directors to illustrate the effects of the events or transactions set out in Note 3 and Note 4 of the Pro Forma Consolidated Statement of Financial Position had it been implemented and completed on 31 December 2018 on the Group's financial position as at that date.

As part of this process, information about the Group's financial position has been extracted by the Board of Directors from the audited financial information of the Group for the financial year ended 31 December 2018.

The Board of Directors' Responsibilities

The Board of Directors is solely responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis as set out in Note 2 to the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

ECOVIS MALAYSIA PLT (F.K.A. ECOVIS AHL PLT) (LLP0003185-LCA) & (AF 001825) Chartered Accountants, No.54, Jalan Kempas Utama 2/2, Taman Kempas Utama, 81200 Johor Bahru, Johor Darul Ta'zim, Malaysia Phone:+607 562 9000 Fax:+607 562 9090 E-Mail: johor@ecovis.com.my

A member of ECOVIS International, a network of tax advisors, accountants, auditors and lawyers, operating in more than 60 countries across 6 continents.

ECOVIS International is a Swiss association. Each Ecovis Member Firm is an independent legal entity in its own country and is only liable for its own acts or omissions, not those of any other entity. ECOVIS MALAYSIA PLT is a Malaysia Member Firm of ECOVIS International.

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)



Reporting Accountants' Independence and Quality Control

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

The Firm applies International Standard on Quality Control 1 (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 regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position has been compiled, in all material respects, by the Board of Directors on the basis as set out in Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

We conducted our engagement in accordance with International Standards on Assurance Engagements ("ISAE") 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Board of Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

For 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 Statements of Financial Position, 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 Statements of Financial Position.

The purpose of the Pro Forma Consolidated Statements of Financial Position included in the Prospectus is solely to illustrate the impacts of significant events or transactions on unadjusted financial information of the Group as if the events had occurred or the transactions have 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 at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis as set out in Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirement of the Prospectus Guidelines involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- (i) the related pro forma adjustments give appropriate effect to those criteria; and
- (ii) the Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)



Reporting Accountants' Responsibilities (Cont'd)

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

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

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position of the Group have been compiled, in all material respects, on the basis as set out in Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Other Matters

Our report on the Pro Forma Consolidated Statements of Financial Position has been prepared for inclusion in the Prospectus of i-Stone in connection with the Listing. As such this letter should not be used for any other purpose without our prior written consent. 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 cursive script that reads "Ecovis".

ECOVIS MALAYSIA PLT
AF 001825
Chartered Accountants

Johor Bahru

A handwritten signature consisting of a vertical line and a horizontal line forming an L-shape.

KHOR KENG LIEH
No. 02733/07/2019 (J)
Chartered Accountant

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
1. Abbreviation

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report: -

Bizit Systems Malaysia	:	Bizit Systems (M) Sdn Bhd (770777-P)
Bizit Systems Singapore	:	Bizit Systems and Solutions Pte Ltd (201112841R)
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
CNC machine	:	Computer Numerical Control machine, a machine executed and/or commanded by computers to perform tasks in high precision manner such as milling, cutting and grinding of metals and plastics to form precision parts
Director(s)	:	Either an executive director or a non-executive director of the Company within the meaning of Section 2 of the Companies Act, 2016
D & D	:	Design and development
E&E	:	Electrical and electronics
FYE(s)	:	Financial year(s) ended/ending 31 December, as the case may be
Initial Public Offering or IPO	:	Initial public offering comprising Public Issue and Offer for Sale in conjunction with the listing of and quotation for the enlarged issued share capital on the ACE Market of Bursa Securities
IPO Price	:	The issue/offer price of RM0.16 per Share pursuant to the Public Issue and Offer for Sale
IPO Share(s)	:	The Issue Share(s) and Offer Share(s), collectively
i-Stone or Company	:	i-Stone Group Berhad (1273151-K)
i-Stone Engineering	:	i-Stone Engineering Sdn Bhd (814843-P)
i-Stone Group or Group	:	i-Stone Group Berhad and its subsidiaries, collectively
i-Stone International	:	i-Stone International Pte Ltd (201305528C)
i-Stone Solutions	:	i-Stone Solutions Sdn Bhd (1046947-U)
i-Stone Systems	:	i-Stone Systems Sdn Bhd (1167928-K)
i-Stone Technology	:	i-Stone Technology Sdn Bhd (760967-W)
i-Stone Technology Share(s)	:	Ordinary share(s) in i-Stone Technology

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)
APPENDIX 1
**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
1. Abbreviation (cont'd)

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report: - (cont'd)

Issue Share(s)	:	The 244,296,000 new Share(s) to be issued pursuant to the Public Issue and subject to the terms and conditions of the Prospectus
LPD	:	23 May 2019, being the latest practicable date for ascertaining certain information contained in the Prospectus
Listing	:	The admission to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged share capital of RM55,699,539 comprising 1,221,477,200 Shares on the ACE Market of Bursa Securities
Malaysian Public	:	Malaysian citizens and companies, co-operatives, societies and institutions incorporated or organised under the laws of Malaysia
MITI	:	Ministry of International Trade and Industry, Malaysia
NA	:	Net assets
New Factory	:	Comprising: (a) a piece of leasehold land held under HS(D) 50239, PTD 87654, Mukim of Senai, District of Kulai, Johor together with one storey factory with a two (2) storey office building used as office and manufacturing space bearing the postal address of 12-2, Jalan Persiaran Teknologi, Taman Teknologi Johor, 81400 Senai, Johor; and (b) a piece of leasehold land held under HS(D) 50240, PTD 87663, Mukim of Senai, District of Kulai, Johor, being a vacant land with the postal address of PTD 87663, Jalan Persiaran Teknologi, Taman Teknologi Johor 81400 Senai, Johor
Offer for Sale	:	The offer for sale by the Offerors of 122,148,000 Offer Shares at the IPO Price by way of private placement to selected investors
Offer Shares	:	122,148,000 existing Shares, representing approximately 10.0% of the enlarged issued share capital, to be offered for sale pursuant to the Offer for Sale and subject to the terms and conditions of this Prospectus

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)
APPENDIX 1
**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
1. Abbreviation (cont'd)

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report: - (cont'd)

Offeror(s)	:	Tee Sook Sing, Chan Kok San and Chin Chung Lek, who are undertaking the Offer for Sale
Official List	:	The official list specifying all securities which have been admitted for listing on the ACE Market of Bursa Securities and not removed
One Galaxy Capital	:	One Galaxy Capital Sdn Bhd (formerly known as i-Stone Capital Sdn Bhd) (1212674-U)
One Galaxy Equity	:	One Galaxy Equity Sdn Bhd (formerly known as i-Stone Electronics Sdn Bhd) (1040949-W)
One Galaxy Systems	:	One Galaxy Systems Sdn Bhd (formerly known as Bizit Systems and Solutions Sdn Bhd) (842097-W)
One Gourmet	:	One Gourmet Sdn Bhd (formerly known as i-Stone Gourmet Sdn Bhd) (1228320-H)
OUE	:	One United Equity Sdn Bhd (1276883-M)
OUE Share(s)	:	Ordinary share(s) in OUE
P.A. Engineering	:	P.A. Metal Engineering Sdn Bhd (182803-H)
P.A. Metal	:	P.A. Metal Technics Sdn Bhd (392454-U)
Pink Form Allocations	:	The allocation of 12,215,000 Issue Shares to the eligible Directors and employees of the Group pursuant to the Public Issue
Prospectus	:	The prospectus dated 21 June 2019 in relation to the IPO
Public Issue	:	The public issue of 244,296,000 Issue Shares at the IPO Price
RM and sen	:	Ringgit Malaysia and sen, respectively
Shares or i-Stone Shares	:	Ordinary share(s) in i-Stone Group Berhad
Top One Technology	:	Top One Technology Sdn Bhd (1177690-P)
Venture Primus	:	Venture Primus Sdn Bhd (1053163-H)

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

2. Basis of preparation

The Pro Forma Consolidated Statement of Financial Position of i-Stone Group has been prepared by the Directors based on the audited financial statements of i-Stone Group for the FYE 2018 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and in a manner consistent with the format of the audited financial statements and accounting policies of the Group. The Pro Forma Consolidated Statement of Financial Position has been prepared solely for illustrative purposes, to show effect of the transactions as disclosed in Note 3 and Note 4 of the Pro Forma Consolidated Statement of Financial Position.

The audited consolidated financial statements of i-Stone Technology and its subsidiaries for the FYE 2018 were reported without any modifications and were not subject to any audit qualification.

The Group is regarded as a continuing entity resulting from the internal restructuring exercise because the management of all the entities within the Group, which took part in the internal restructuring exercise were under common control before and immediately after the internal restructuring 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 Pro Forma Consolidated Statement of Financial Position, 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 remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)
APPENDIX 1
**I-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
3. Internal Restructuring Exercise

In conjunction with and as an integral part of the Listing, i-Stone has undertaken an internal restructuring exercise that involved: -

(a) Shareholdings reorganisation

OUE had on 11 July 2018 subscribed for a total of 421,875 i-Stone Technology Shares for the total cash subscription consideration of RM4,218.75.

(b) Disposals by i-Stone Technology

Prior to the Acquisition of i-Stone Technology, i-Stone Technology had undertaken the following disposals of its equity interest held in companies which were either dormant or its principal activities are not related to the Group's core principal activities ("Disposals by i-Stone Technology"), as detailed below: -

Company	Equity interest disposed ⁽²⁾ (%)	Cash disposal consideration (RM)
Top One Technology	51.0	51,000
One Galaxy Capital	40.0	250,000
One Gourmet	50.0	8
P.A. Engineering	60.0	4,800
One Galaxy Equity	51.0	160,000
One Galaxy Systems	⁽¹⁾ 94.7	175,120
Venture Primus	250,000 Preference shares	1

Notes:

- (1) Pursuant to the Disposal of One Galaxy Systems, i-Stone Technology had disposed its 47.1% equity interest held in One Galaxy Systems and Bizit Systems Singapore had disposed its 47.6% equity interest held in One Galaxy Systems.
- (2) All disposals were completed as at 31 December 2018.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

3. Internal Restructuring Exercise

In conjunction with and as an integral part of the Listing, i-Stone have undertaken an internal restructuring exercise that involved: - (cont'd)

(c) Acquisitions by i-Stone Technology

Acquisition of the remaining equity interest currently not held by i-Stone Technology, and subsidiaries of Turnitin (a company wherein Chan Kok San, Tee Sook Sing and Chin Chung Lek was previously its Directors and currently its shareholders as well as Chan Sai Kong who is currently its Director and shareholder), namely i-Stone International and Bizit Systems Singapore, ("Acquisitions by i-Stone Technology") at a total purchase consideration of RM3,614,336, satisfied via the issuance of 78,824 i-Stone Technology Shares at issue price of RM13.282 per share and RM2,567,396 by cash, in the following manner: -

Company	Remaining interest	No. of i-Stone Technology Shares issued	Share consideration (RM)	Cash consideration (RM)
- i-Stone Engineering	30%	33,149	440,285	-
- P.A. Metal	40%	26,346	349,927	-
- Bizit Systems Malaysia	10%	2,319	30,801	-
- i-Stone International	100%	-	-	534,019
- Bizit Systems Singapore	100%	17,010	225,927	2,033,377
		78,824	1,046,940	2,567,396

(d) Acquisition of i-Stone Technology

i-Stone entered into a conditional share purchase agreement dated 31 October 2018 for the acquisition of the entire equity interest in i-Stone Technology ("Acquisition of i-Stone Technology") for a purchase consideration of RM16,612,078.70, and satisfied via the issuance of 977,181,100 Shares at an issue price of approximately RM0.017 per i-Stone Share on 2 May 2019. The Acquisition of i-Stone Technology has completed upon completion of Acquisitions by i-Stone Technology.

(Collectively referred to as "Internal Restructuring")

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

4. Listing Scheme

The details of the listing scheme are as follows:

4.1 Initial Public Offering ("IPO")

(a) Public Issue

The public issue of 244,296,000 Issue Shares at the IPO Price payable in full on application, upon such terms and conditions as set out in the Prospectus, and will be allocated and allotted in the following manner:

- (i) 61,074,000 Issue Shares will be made available for application by the Malaysian Public, to be allocated via balloting process as follows:
 - 30,537,000 Issue Shares made available to public investors; and
 - 30,537,000 Issue Shares made available to Bumiputera public investors.
- (ii) 12,215,000 Issue Shares made available for application by the eligible Directors and employees under the Pink Form Allocations;
- (iii) 122,148,000 Issue Shares made available by way of private placement to identified Bumiputera investors approved by MITI; and
- (iv) 48,859,000 Issue Shares made available by way of private placement to selected investors.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2018**
4. Listing Scheme (Cont'd)
4.1 Initial Public Offering ("IPO") (Cont'd)
(b) Offer for Sale

The Offerors will undertake an offer for sale of 122,148,000 Offer Shares at the IPO Price by way of private placement to selected investors to be identified.

(c) Listing on Bursa Securities

The admission of i-Stone to the Official List of Bursa Securities, and the entire enlarged issued share capital of RM55,699,538.70 comprising 1,221,477,200 i-Stone Shares shall be listed and quoted on the ACE Market of Bursa Securities upon completion of the Public Issue and Offer for Sale.

4.2 Utilisation of Proceeds from IPO

The gross proceeds from the IPO of RM39,087,360 are intended to be utilised as follows:

Utilisation of proceeds	RM	Estimated timeframe for utilisation
Process and product development	4,200,000	Within 24 months
Repayment of borrowings	13,482,360	Within 12 months
Construction of new D&D centre	6,800,000	Within 48 months
Capital expenditures	5,200,000	Within 24 months
Working capital requirements	5,905,000	Within 36 months
Estimated listing expenses	3,500,000	Within 1 month
	<u>39,087,360</u>	

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)**APPENDIX 1****i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018****5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018**

The Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2018 have been prepared for illustrative purposes only to show the effects on the audited consolidated statement of financial position of i-Stone Group as at 31 December 2018 based on the assumptions that the Internal Restructuring as set out in Note 3 and Listing Scheme as set out in Note 4 to the Pro Forma Consolidated Statement of Financial Position had been effected on 31 December 2018.

	Note	Audited as at 31 December 2018		Pro Forma I		Pro Forma II		Pro Forma III	
		RM	RM	Internal Restructuring RM	After Internal Restructuring RM	Public Issue RM	After Pro Forma I and Public Issue RM	Use of proceeds RM	After Pro Forma II and use of proceeds RM
ASSETS									
NON-CURRENT ASSETS									
Property, plant and equipment	5.2	-	23,088,346	23,088,346	-	23,088,346	12,000,000	35,088,346	
Intangible assets	5.3	-	-	-	-	-	4,200,000	4,200,000	
Investment properties	-	-	289,975	289,975	-	289,975	-	289,975	
Goodwill on consolidation	-	-	855,802	855,802	-	855,802	-	855,802	
		-	24,234,123	24,234,123	-	24,234,123	16,200,000	40,434,123	
CURRENT ASSETS									
Inventories	-	-	8,678,805	8,678,805	-	8,678,805	-	8,678,805	
Trade receivables	-	-	12,217,887	12,217,887	-	12,217,887	-	12,217,887	
Other receivables	-	-	629,417	629,417	-	629,417	-	629,417	
Current tax assets	-	-	530,180	530,180	-	530,180	-	530,180	
Cash and bank balances	5.4	100	1,232,741	1,232,841	39,087,360	40,320,201	(31,479,505)	8,840,696	
TOTAL CURRENT ASSETS		100	23,289,030	23,289,130	39,087,360	62,376,490	(31,479,505)	30,896,985	
TOTAL ASSETS		100	47,523,153	47,523,253	39,087,360	86,610,613	(15,279,505)	71,331,108	

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)**APPENDIX 1****i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018****5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)**

Note	Audited as at 31 December 2018 RM	Pro Forma I			Pro Forma II		Pro Forma III	
		Internal Restructuring RM	After Internal Restructuring RM	Public Issue RM	After Pro Forma I and Public Issue RM	Use of proceeds RM	After Pro Forma II and use of proceeds RM	
CURRENT LIABILITIES								
Trade payables	-	7,165,666	7,165,666	-	7,165,666	-	7,165,666	
Other payables	1,274,322	5,012,155	6,286,477	-	6,286,477	(623,020)	5,663,457	
Hire purchase payables	-	136,581	136,581	-	136,581	-	136,581	
Loans and borrowings	-	982,108	982,108	-	982,108	(982,108)	-	
	1,274,322	13,296,510	14,570,832	-	14,570,832	(1,605,128)	12,965,704	
TOTAL LIABILITIES	1,274,322	25,436,755	26,711,077	-	26,711,077	(12,994,331)	13,716,746	
TOTAL EQUITY AND LIABILITIES	100	47,523,153	47,523,253	39,087,360	86,610,613	(15,279,505)	71,331,108	

(a)	Number of ordinary shares	100	977,181,200	1,221,477,200	1,221,477,200	
(b)	NA (RM)	(1,274,222)	20,812,176	59,899,536	57,614,362	
	NA per share attributable to owners of the Company (RM)	(12,742)	0.02	0.05	0.05	
(c)	Borrowings (all interest bearing debts)	-	12,781,687	12,781,687	410,376	
	Gearing (times) (1)	-	0.61	0.21	0.01	
	Current ratio (times) (2)	0.00	1.60	4.28	2.38	

(1) Calculated based on the total borrowings (i.e. hire purchase payables and loans and borrowings) of the Group divided by the total equity of the Group.

(2) Calculated based on total current assets divided by total current liabilities of the Group.

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.1. Pro Forma Adjustments to the Consolidated Statement of Financial Position
Pro Forma I

Pro forma I incorporates the effects of the Internal Restructuring exercise as disclosed in Note 3(c) and 3(d) to the Pro Forma Consolidated Statement of Financial Position.

Company	Remaining interest	No. of ordinary shares issued by i-Stone Technology	Share consideration (RM)	Cash consideration (RM)
i-Stone Engineering	30%	33,149	440,285	-
P.A. Metal	40%	26,346	349,927	-
Bizit Systems Malaysia	10%	2,319	30,801	-
i-Stone International	100%	-	-	534,019
Bizit Systems Singapore	100%	17,010	225,927	2,033,377
		78,824	1,046,940	2,567,396

Pro Forma II

Pro Forma II incorporates the effects of Pro Forma I, and the Public Issue as disclosed in Note 4 to the Pro Forma Consolidated Statement of Financial Position.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)

5.1. Pro Forma Adjustments to the Consolidated Statement of Financial Position (Cont'd)

Pro Forma III

Pro forma III incorporates the effects of Pro forma II and utilisation of proceeds from IPO as disclosed in Note 4.2 to the Pro Forma Consolidated Statement of Financial Position.

Notes: -

(a) Process and product development

i-Stone Group intends to utilise RM4.2 million of the proceeds for the following:

Details	Total estimated cost (RM)
Design, development and manufacturing of standard modules	1,000,000
Development of new products and features	
- Deep learning system	1,100,000
- i-FCT	1,000,000
- i-MES	1,100,000
	4,200,000

The expenditure for development activities of RM4.2 million is expected to be capitalised as intangible assets in accordance with accounting policy of the Group. Initial capitalisation is based on management's judgement that technological and economic feasibility is confirmed.

(b) Repayment of borrowings

As at the LPD, i-Stone Group's total bank borrowings stood at RM18.17 million. The Group intends to utilise RM13.48 million of the proceeds from the Public Issue for the following:

- (i) the group intends to utilise RM11.70 million to fully repay the outstanding term loan of RM11.75 million from Maybank Islamic Berhad. The said term loan was utilised to partially fund the balance purchase consideration of the New Factory of RM13,756,072.
- (ii) The group intends to utilise the amount of RM1.78 million to reduce the outstanding overdraft facilities of RM4.21 million from Maybank Islamic Berhad, which was utilised for the Group's working capital purposes.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.1. Pro Forma Adjustments to the Consolidated Statement of Financial Position (Cont'd)
Pro Forma III (Cont'd)
Notes (Cont'd): -
(c) Construction of new D&D centre

i-Stone Group have earmarked the amount of RM6.8 million from Public Issue proceeds for the construction of the new D&D centre. The breakdown for the construction cost of the new D&D centre is as follows: -

Details	RM
Civil construction, structural works, mechanical and electrical works	4,800,000
Renovation and related works	2,000,000
	6,800,000

Based on the above, the amount of RM6.8 million to be raised from the Public Issue shall be utilised to fund the construction costs of the new D&D centre.

(d) Capital expenditures

i-Stone Group intends to utilise RM5.2 million of the proceeds for the following: -

- (i) RM4.3 million will be utilised to enhance manufacturing capabilities at the New Factory by acquiring the following:

Type of machinery	No. of units	Total estimated cost (RM)
CNC machines		
- CNC milling machine	4	1,300,000
- CNC turning machine	2	700,000
- CNC wire cutting machine	1	200,000
Measuring instruments and accessories	2	450,000
Welding stations	4	250,000
Forming machines	3	850,000
Solidcam and Solidworks software	2	550,000
		4,300,000

- (ii) RM0.9 million to purchase 10 units of robotic arms. These robotics arms will be used for marketing purposes such as to demonstrate product functionalities and features to potential customers in exhibitions, seminars and other marketing events.

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)
APPENDIX 1
**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.1. Pro Forma Adjustments to the Consolidated Statement of Financial Position (Cont'd)
Pro Forma III (Cont'd)
Notes (Cont'd): -
(e) Working capital requirements

The following is a breakdown of the utilisation of proceeds for working capital: -

Details	Subtotal (RM)	Total estimated cost (RM)
Expansion of workforce ⁽¹⁾		2,400,000
Marketing expenses		
- Participation fees for exhibitions	200,000	
- Printing of marketing materials	300,000	
- Travelling and accommodation expenses	500,000	1,000,000
Purchase of raw materials for the following segment: -		
- Manufacturing automation (AC/DC power source and meter, E&E components, industrial computers, automation parts)	1,800,000	
- Design and fabrication of metal panels and frames (aluminium profile, metal sheets, polycarbonate sheets, stainless steel/plates, rods and bars)	350,000	
- Design and fabrication of precision parts (bolts, nuts, clips, screws and hinges)	355,000	2,505,000
		5,905,000

Note: -

(1) The Group expects to utilise approximately RM2.4 million for payment of salaries to new staffs to be recruited. In this respect, they intend to hire additional engineers, technicians and sales and marketing personnel for the business activities. Such amount is expected to be utilised over a period of 36 months and the payments of new staff salaries will subsequently be funded through internally generated funds.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.1. Pro Forma Adjustments to the Consolidated Statement of Financial Position (Cont'd)
Pro Forma III (Cont'd)
Notes (Cont'd): -
(f) Estimated listing expenses

An amount of RM3.50 million of the proceeds is allocated to be utilised for the estimated costs of the Listing. If the actual listing expenses are higher than the amount budgeted, the deficit will be funded out of the portion allocated for working capital requirement.

The following summarises the estimated expenses of the Listing: -

Details	Total estimated cost (RM)
Professional fees	2,000,000
Fees payable to authorities	100,000
Underwriting, placement and brokerage fees	1,200,000
Miscellaneous	200,000
	3,500,000

Note: -

A total of approximately RM1,385,000 of listing expenses is assumed to be directly attributable to the Public Issue and as such, will be debited against the share capital of the Company and the remaining expenses of RM2,115,000 is assumed to be attributable to the Listing and as such, will be expensed off to the statement of profit or loss and other comprehensive income of the Group.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.2. Property, plant and equipment

	RM	RM
As audited on 31 December 2018		-
Pro Forma I		
- Internal Restructuring		23,088,346
After effects of Pro Forma I, II		<u>23,088,346</u>
Pro Forma III		
Utilisation of proceeds from Public Issue:		
- Construction of new D&D centre	6,800,000	
- Capital expenditure	5,200,000	12,000,000
After effects of Pro Forma III		<u><u>35,088,346</u></u>

5.3. Intangible assets

	RM
As audited on 31 December 2018	-
Pro Forma III	
Utilisation of proceeds from Public Issue:	
- Capitalisation of development expenditure	4,200,000
After effects of Pro Forma III	<u><u>4,200,000</u></u>

5.4. Cash and bank balances

	RM	RM
As audited on 31 December 2018		100
Pro Forma I		
Internal Restructuring		
- i-Stone Technology and its combining entities as at 31 December 2018	3,800,137	
- Acquisitions by i-Stone Technology (as per Note 5.1)	(2,567,396)	1,232,741
After effects of Pro Forma I		<u>1,232,841</u>
Pro Forma II		
- Proceeds from Public Issue		39,087,360
After effects of Pro Forma I, II		<u>40,320,201</u>
Pro Forma III		
Utilisation of proceeds from Public Issue:		
- Process and product development	(4,200,000)	
- Construction of new D&D centre	(6,800,000)	
- Capital expenditure	(5,200,000)	
- Repayment of bank borrowings	(13,482,360)	
- Estimated listing expenses ⁽¹⁾	(2,908,194)	
- Transfer from loan and borrowings ⁽²⁾	1,111,049	(31,479,505)
After effects of Pro Forma III		<u><u>8,840,696</u></u>

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)
APPENDIX 1
**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.4. Cash and bank balances (cont'd)
(1) Estimated listing expenses

	RM
<i>Estimated listing expenses</i>	3,500,000
<i>Less: Amount paid and expensed off as at 31 December 2018</i>	<u>(591,806)</u>
<i>Balance of estimated listing expenses to be paid</i>	2,908,194
<i>Less: Amount accrued and expensed off as at 31 December 2018</i>	<u>(623,020)</u>
	2,285,174
<i>Less: Amount recognised in equity (as per Note 5.1(f))</i>	<u>(1,385,000)</u>
<i>Balance of estimated listing expenses to be expensed off</i>	<u>900,174</u>

- (2) As at 31 December 2018, the Group's outstanding loans and borrowings stood at RM12.37 million. For illustrative purposes only, the total proceeds raised of RM13.48 million shall be utilised for the repayment of RM12.37 million of loan and borrowings as at 31 December 2018, whilst the excess cash amount of RM1,111,049 shall be transferred to its cash and bank balances, which shall be utilised for the repayment of the Group's outstanding loans and borrowings as at LPD.

5.5. Share capital

	No. of shares	RM
As audited on 31 December 2018	100	100
Pro Forma I		
- Share issuance on Acquisition of i-Stone Technology	<u>977,181,100</u>	<u>16,612,079</u>
After effects of Pro Forma I	977,181,200	16,612,179
Pro Forma II		
- Proceeds from Public Issue	<u>244,296,000</u>	<u>39,087,360</u>
After effects of Pro Forma II	<u>1,221,477,200</u>	<u>55,699,539</u>
Pro Forma III		
Utilisation of proceeds from Public Issue:		
- Estimated listing expenses (as per Note 5.4)		<u>(1,385,000)</u>
After effects of Pro Forma III		<u>54,314,539</u>

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)
APPENDIX 1
**I-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.6. Reorganisation reserve

	RM
As audited on 31 December 2018	-
Pro Forma I	
- Acquisitions by i-Stone Technology	(1,822,083)
- Acquisition of i-Stone Technology	(16,612,079)
- Elimination of i-Stone Technology ordinary shares	1,801,159
After effects of Pro Forma I, II and III	<u>(16,633,003)</u>

5.7. Retained profits

	RM
As audited on 31 December 2018	(1,274,322)
Pro Forma I	
- Internal Restructuring	21,527,603
After effects of Pro Forma I, II	<u>20,253,281</u>
Pro Forma III	
Utilisation of proceeds from Public Issue:	
- Estimated listing expenses ⁽¹⁾ (as per Note 5.4)	(900,174)
After effects of Pro Forma III	<u>19,353,107</u>

(1) The amount of RM1,214,826 recognised as estimated listing expenses has been recognised in profit or loss as at 31 December 2018.

5.8. Loans and borrowings (Current and non-current liabilities)

	RM
As audited on 31 December 2018	-
Pro Forma I	
- Internal Restructuring	12,371,311
After effects of Pro Forma I, II	<u>12,371,311</u>
Pro Forma III	
Utilisation of proceeds from Public Issue:	
- Repayment of bank borrowings	(13,482,360)
	(1,111,049)
- Transfer to cash and bank balances ⁽¹⁾	1,111,049
After effects of Pro Forma III	<u>-</u>

(1) As at 31 December 2018, the Group's outstanding loans and borrowings stood at RM12.37 million. For illustrative purposes only, the total proceeds raised of RM13.48 million shall be utilised for the repayment of RM12.37 million of loan and borrowings as at 31 December 2018, whilst the excess cash amount of RM1,111,049 shall be transferred to its cash and bank balances, which shall be utilised for the repayment of the Group's outstanding loans and borrowings as at LPD.

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
 NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2018**
5. Pro Forma Consolidated Statement of Financial Position as at 31 December 2018 (Cont'd)
5.9. Other payables

	RM
As audited on 31 December 2018	1,274,322
Pro Forma I	
- Internal Restructuring	5,012,155
After effects of Pro Forma I, II and III	<u>6,286,477</u>
Utilisation of proceeds from Public Issue:	
- Estimated listing expenses (as per Note 5.4) ⁽¹⁾	<u>(623,020)</u>
	<u>5,663,457</u>

(1) The amount of RM1,214,826 recognised as estimated listing expenses has been recognised in profit or loss as at 31 December 2018, of which RM623,020 included in accruals as at the end of the year.

[The remaining of this page is left blank intentionally]

13. REPORTING ACCOUNTANTS' LETTER ON THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION (cont'd)

APPENDIX 1

**i-STONE GROUP BERHAD (1273151-K)
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of i-Stone Group Berhad on 29 May 2019



Chan Kok San
Director



Tee Sook Sing
Director

14. STATUTORY AND OTHER INFORMATION

14.1 SHARE CAPITAL

- (a) As at the date of this Prospectus, we only have 1 class of shares, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.
- (b) None of our Group's capital is under option, or agreed conditionally or unconditionally to be put under option.
- (c) Save for 12,215,000 Shares under the Pink Form Allocations:
 - (i) no Director or employees 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) Save for the following:
 - (i) allotment of shares as set out in Sections 6.2 and 6.4 of this Prospectus; and
 - (ii) Public Issue,

no shares of our Company or our subsidiaries have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.
- (e) Other than our Public Issue, there is no intention on the part of our Directors to further issue any Shares on the basis of this Prospectus.
- (f) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

14.2 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 Constitution are based on the current Listing Requirements and the Act.

(1) Remuneration of Directors

The provisions in our Constitution dealing with remuneration of Directors are as follows:

Directors' fees and benefits

Rule 119

Fees and benefits payable to directors shall be subject to annual shareholder approval at a general meeting to be held, provided always that:

14. STATUTORY AND OTHER INFORMATION (cont'd)

- (a) fees payable to executive and non-executive Directors shall be by way of a fixed sum, and not by way of a commission on or percentage of profits or turnover; and
- (b) any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Directors' expenses**Rule 119**

The Directors may also be reimbursed for all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Board or any committee of directors or general meetings of the Company or otherwise howsoever in connection with the business of the Company in the course of performing their duties as Directors.

Pensions and other benefits**Rule 130**

Subject to the Act generally and Section 230 of the Act specifically, the Directors may procure the establishment and maintenance of or participate in or contribute to any non-contributory or contributory pension or superannuation fund or life assurance scheme for the benefit of, and pay, provide for or procure the grant donations, gratuities, pensions, allowances, benefits or emoluments to any persons (including Directors and other officers) who are or shall have been at any time in the employment or service of the Company or of any company which is a subsidiary of the Company or of the predecessors in business of the Company or of any such subsidiary company, or the wives, widows, families or dependents of any such persons. The Directors may also procure the establishment and subsidy of or subscription and support to any institutions, associations, clubs, funds or trusts calculated to be for the benefit of any such persons as aforesaid or otherwise to advance the interests and well-being of the Company or of any such other company as aforesaid or of its Members and payment for or towards the insurance of any such persons as aforesaid, and subscriptions or guarantees of money for charitable or benevolent objects or for any exhibition or for any public, general or useful object.

(2) Voting and Borrowing Powers of the Directors

The provisions in our Constitution dealing with voting and borrowing powers of our Directors including voting powers in relation to proposals, arrangements or contracts in which they are interested in are as follows:

Voting at Board meetings**Rule 151**

Subject to these Rules, questions arising at any meeting of the Directors shall be decided by a majority of votes. In the case of an equality of votes and subject to Rule 129, the chairman shall have a casting vote. However, where 2 directors form a quorum, the chairman of a meeting at which only such a quorum is present, or at which only 2 Directors are competent to vote on the question at issue shall not have a casting vote, whereupon, in the case of equality of votes, the status quo shall be maintained in respect of such matter or thing contained in the resolution as it stood immediately before the resolution was placed before the Board. The other business not affected by such resolution shall continue as usual.

14. STATUTORY AND OTHER INFORMATION (cont'd)

Directors' Borrowing Powers

Rule 127

The Directors may exercise all the powers of the Company to borrow money or secure the payment of such money in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the issue of debentures or debenture stock of the Company, charged upon all or any part of the property of the Company (both present and future) including uncalled capital or by means of mortgages, bonds and dispositions in security or bonds of cash-credit, with or without power of sale, as the Directors shall think fit. 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.

(3) Changes to Share Capital

The provisions in our Constitution dealing with changes to share capital are as follows:

Classes of shares

Rule 6

The Company's share capital is divided into ordinary shares. The shares in the original or any increased capital may be divided into several classes, and there may be attached to any of them respectively any preferential, deferred and/or other special rights, privileges, conditions and/or restrictions as to dividends, capital, voting and/or otherwise.

Rule 9

Without prejudice to any special rights previously conferred on the holders of any shares or class of shares already issued, any shares in the Company (whether forming part of the original capital or not) may be issued with or have attached thereto such preferred, deferred or other special rights, or such restrictions, whether in regard to distribution, return of capital, voting or otherwise, as the Company may from time to time by Ordinary Resolution determine, provided that:

The holders of preference shares shall have the same rights as the holders of ordinary shares as regards receiving notices, reports and audited accounts and attending general meetings of the Company but shall only have the right to vote in each of the following circumstances:

- (a) when the distribution or part of the distribution on the share is in arrears for more than 6 months;
- (b) on a proposal to reduce the Company's share capital;
- (c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
- (d) on a proposal that affects rights attached to the share;
- (e) on a proposal to wind up the Company; and
- (f) during the winding-up of the Company.

14. STATUTORY AND OTHER INFORMATION (cont'd)

Subject to the Act, any preference shares may be issued on the terms that they are, or at the option of the Company, are liable to be redeemed.

Share and Special Rights**Rule 75**

The Company in general meeting may from time to time, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and (subject to any special rights for the time being attached to any existing class of shares) to carry such preferential, deferred or other special rights (if any), or to be subject to such conditions or restrictions (if any), in regard to distribution, return of capital, voting or otherwise, as the general meeting resolving upon such increase directs.

Rule 76

Subject to any direction to the contrary that may be given by the Company in general meeting, any new shares or other convertible Securities proposed to be issued shall before they are issued be offered to such persons as are at the date of the offer 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 convertible 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 convertible Securities offered, the Directors may dispose of those shares or convertible securities in such manner as they think most beneficial to the Company.

The Directors may likewise also dispose of any new shares or convertible Securities which (by reason of the ratio which the new shares or convertible Securities bear to shares or Securities held by the persons entitled to an offer of new shares or convertible Securities) cannot, in the opinion of the Directors, be conveniently offered under this Constitution.

Except so far as otherwise provided by or pursuant to the conditions of issue, any new share capital shall be considered as part of the original share capital of the Company, and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the original share capital.

Changing special rights of shares**Rule 77**

Notwithstanding Rule 78 hereof, the repayment of preference share capital other than redeemable preference share capital, or any other alteration of preference shareholders' rights, shall only be made pursuant to a Special Resolution of the preference shareholders concerned, provided always that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing if obtained from the holders of three-fourths of the preference share capital concerned within 2 months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

14. STATUTORY AND OTHER INFORMATION (cont'd)

Rule 78

If the share capital is divided into different classes of shares, the rights attached to any class unless otherwise provided by the terms of issue of that class may, whether or not the Company is being wound up, be varied by a written consent representing not less than seventy five per centum (75%) of the total voting rights of the shareholders in that class, or by a Special Resolution passed by shareholders in that class sanctioning the variation.

Rule 79**For the purposes of Rule 78:**

- 79.1 Any amendment of a provision contained in the Constitution for the variation of the rights attached to a class of shares or the rights of a class of Members, or the insertion of any such provision into the Constitution, is itself to be treated as a variation of those rights; and
- 79.2 References to the variation of rights attached to a class of shares or the rights of a class of Members include an abrogation of those rights.

Renunciations of allotted but unissued shares**Rule 46**

Nothing in these Rules shall preclude the Directors from recognising a renunciation of the allotment of any share by the allottee in favour of some other person.

Power to change capital**Rule 73**

- 73.1 The Company may by Ordinary Resolution:
- (a) consolidate and divide all or any of its share capital, such that the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived;
 - (b) convert all or any of its paid-up shares into stock and reconvert that stock into fully-paid shares;
 - (c) subdivide its shares or any of its shares, such that whatever is in the subdivision, 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. Any resolution whereby any share is subdivided may determine that, as between the holders of shares resulting from such subdivision, one or more of such shares may have such preferred or other special rights over, or may be given any preference or advantage as regards dividends, return of capital voting or otherwise over the other or others of such shares;
 - (d) increase its share capital by such sum to be divided into shares of such amount as the resolution may prescribe; or
 - (e) subject to the provisions of this Constitution and the Act, convert and/or reclassify any class of shares into another class of shares.

14. STATUTORY AND OTHER INFORMATION (cont'd)

73.2. The Company may by Special Resolution reduce its share capital in any manner authorised by the Act**Securities Transfers****Rule 25**

To give effect to any such sale, the Directors may authorise any person to transfer subject to any Applicable Law, the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares comprised in any such transfer and the purchaser shall not be bound to see to the application of the purchase money, nor shall the purchaser's title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

Rule 35

The transfers of any Deposited Securities or class of Deposited Securities in the Company shall be by way of book entry by the Central Depository in accordance with the Central Depository Rules and, notwithstanding Sections 105, 106 or 110 of the Act, but subject to subsection 148(2) of the Act and any exemptions 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 the Deposited Securities.

Rule 38

The Central Depository may refuse to register any transfer of Deposited Securities if it does not comply with the Depository Act or the Rules.

14.3 GENERAL INFORMATION

- (a) Save for the purchase consideration paid to the shareholders of our subsidiaries pursuant to the Acquisitions by i-Stone Technology and Acquisition of i-Stone Technology as disclosed in Sections 6.3.3 and 6.3.4, Directors' remuneration as disclosed in Section 5.2.4, dividends paid to our Promoters as disclosed in Section 11.10, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoters, Directors or substantial shareholders.
- (b) None of our Directors or substantial shareholders has any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.
- (c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the summarised details of the procedures for application of our Shares are set out in Section 15.
- (d) 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.

14. STATUTORY AND OTHER INFORMATION (cont'd)

14.4 REPATRIATION OF CAPITAL AND REMITTANCE OF PROFIT

As at the LPD, there are no governmental laws, decrees, regulations or other requirements which may affect the repatriation of capital and remittance of profit by our foreign subsidiaries in Singapore to Malaysia provided that:

- (a) there are sufficient distributable retained earnings in the latest set of accounts of our foreign subsidiaries in Singapore for the dividend payment; and
- (b) our foreign subsidiaries in Singapore, namely i-Stone International and Bizit Systems Singapore, must adhere to Singapore Companies Act Chapter 50.

14.5 CONSENTS

- (a) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretaries 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 its name and the Industry Overview titled "The Specialised Machinery and Equipment Industry in Malaysia", 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.

14.6 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;
- (b) the audited financial statements of the i-Stone Group for the FYEs 2015 to 2018;
- (c) the Accountants' Report as set out in Section 12;
- (d) the Reporting Accountants' letter on the Pro forma Consolidated Financial Information as set out in Section 13;
- (e) the Industry Overview as set out in Section 8;
- (f) the material contracts as set out in Section 6.5;
- (g) the letters of consent as set out in Section 14.5.

14. STATUTORY AND OTHER INFORMATION (cont'd)

14.7 RESPONSIBILITY STATEMENTS

Our Directors, Promoters and Offerors have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein, and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

[The rest of this page is intentionally left blank]

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC COPY OF OUR PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT 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.

15.1 OPENING AND CLOSING OF APPLICATION PERIOD

OPENING OF THE APPLICATION PERIOD: 10.00 a.m., 21 June 2019

CLOSING OF THE APPLICATION PERIOD: 5.00 p.m., 8 July 2019

In the event there are any changes to the timetable above, we will advertise the notice of changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

LATE APPLICATIONS WILL NOT BE ACCEPTED.

15.2 METHODS OF APPLICATIONS

15.2.1 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.

<u>Types of Application and category of investors</u>	<u>Application Method</u>
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

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (cont'd)**15.2.2 Placement**

Types of Application	Application Method
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.

15.3 ELIGIBILITY**15.3.1 General**

YOU MUST HAVE A CDS ACCOUNT AND A CORRESPONDENCE ADDRESS IN MALAYSIA. IF YOU DO NOT HAVE A CDS ACCOUNT, YOU MAY OPEN A CDS ACCOUNT BY CONTACTING ANY OF THE ADAS SET OUT IN 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.

15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (a) You must be one of the following:
 - (i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
 - (ii) 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

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (*cont'd*)

- (iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (b) 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
- (c) You must submit Applications by using only one of the following methods:
 - (i) White Application Form; or
 - (ii) Electronic Share Application; or
 - (iii) Internet Share Application.

15.3.3 Application by eligible Directors and employees

The eligible Directors and employees will be provided with Pink Application Forms and letters from us detailing their respective allocation.

15.4 APPLICATION 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 "**TIH SHARE ISSUE ACCOUNT NO. 684**" 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:

- (a) 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

- (b) **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 8 July 2019 or by such other time and date specified in any change to the date or time for closing.

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.

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (cont'd)

15.5 APPLICATION 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.

15.6 APPLICATION 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.

15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

- (a) reject Applications which:
 - (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
 - (ii) are illegible, incomplete or inaccurate; or
 - (iii) are accompanied by an improperly drawn up, or improper form of, remittance; or
- (b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 15.8 below.

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.

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (cont'd)**15.8 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.

15.8.1 For applications by way of Application Forms

- (a) 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.
- (b) 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.
- (c) 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 (a) and (b) above (as the case may be).
- (d) 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 (b) above (as the case may be).

15.8.2 For applications by way of Electronic Share Application and Internet Share Application

- (a) 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.
- (b) You may check your account on the 4th Market Day from the balloting date.
- (c) 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

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (cont'd)

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.

15.9 SUCCESSFUL APPLICANTS

If you are successful in your application:

- (a) Our IPO Shares allotted to you will be credited into your CDS Account.
- (b) 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.
- (c) 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.
- (d) 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.

15.10 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
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>, 1 Market Day after the balloting date. You may also check the status of your Application at the above website, 4 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.

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS

Save as disclosed below, there are no other licenses and permits which our Group is dependent on for our business or profitability as at the LPD:

No.	Licensee/Issuing authority/Registration	Date of issue/ Date of expiry	Nature of approval or license	Material conditions imposed	Compliance status
(a)	Bizit Systems Malaysia / Ministry of Finance Malaysia / K22102756091787729	13 September 2017 / 12 September 2020	Certifying the registration of Bizit Systems Malaysia with Ministry of Finance Malaysia as a supplier/service provider in the sector, field and sub-field, which includes: (i) Hardware (high end technology); (ii) Software / system development /customisation and maintenance; (iii) telecommunication/ networking – services including supply product, infrastructure; and (iv) data management -provide services including disaster.	Any change to the details of the company shall be updated online at http://www.eprolehan.gov.my within 21 days from the date the change is made	Noted
(b)	i-Stone Solutions / MDeC / 3193	23 October 2013 / N/A	MSC Malaysia Status	(i) Any changes proposed to the MSC Malaysia qualifying activities as detailed in the business plan must receive the prior written consent of MDeC (ii) Locate the implementation and operation of the MSC-qualifying activities within 6 months from 23 October 2013 and thereafter continue to locate at all times in an office space of at least 1,200 sq ft in:	Complied Complied

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS (cont'd)

No.	Licensee/Issuing authority/Registration no.	Date of issue/ Date of expiry	Nature of approval or license	Material conditions imposed	Compliance status
				<p>(a) Designated premises within MSC Malaysia Cybercities / Cybercentres ("Designated Premises"); or</p> <p>(b) Premises other than Designated Premises within MSC Malaysia Cybercities / Cybercentres located on land in respect of which there are no prohibitions or restrictions on the use or enjoyment of the land or buildings thereon for commercial purpose</p>	
				<p>(iii) Where the implementation and operation is not located in Designated Premises, the company shall waive all incentives, rights and privileges under and in relation to MSC Malaysia Bill of Guarantees No. 1 and No. 8. The company shall obtain MDeC's prior written approval in the event of any change in the location or address of the company</p>	Complied
				<p>(iv) To ensure that at all times at least 85% of the total number of employees (excluding support staff) of the company shall be "knowledge workers" (as defined by MDeC)</p>	Complied
				<p>(v) To inform and obtain the prior approval of MDeC for any proposed change in the name of the company</p>	Noted
				<p>(vi) To inform MDeC of any change in equity structure or shareholding structure of the company, or such other changes that may affect the direction or operation of the company. MDeC must be informed of any</p>	Noted

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS (cont'd)

No.	Licensee/Issuing authority/Registration no.	Date of issue/ Date of expiry	Nature of approval or license	Material conditions imposed	Compliance status
				change before steps are taken to effect such change	
				(vii) To ensure at least 30% of its investment is in the locations set out in item (ii) above within 6 months of the MSC Malaysia status approval (i.e. 23 October 2013) and shall ensure that such level is maintained at all times	Complied
				(viii) To ensure at least 30 knowledge workers or 20 knowledge workers with the average salary of at least RM8,000.00 per month are employed by the company by the end of year 5 from the date of MSC Malaysia approval (i.e. 23 October 2013)	Complied
				(ix) To ensure at least 20% or RM0.5 million of its revenue shall be from exports by the end of year 5 from the date of MSC Malaysia status approval (i.e. 23 October 2013) and shall ensure that such level is maintained at all times For the avoidance of doubt, 'export' shall mean revenue generated from the provision of services by the company to those of its customers that reside outside Malaysia and/or multinational corporations in Malaysia, including entities within their group of companies	Complied
				(x) MSC Malaysia Status granted to the company shall not be transferable or assignable in anyway whatsoever without the prior written consent of MDeC	Noted

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS (cont'd)

No.	Licensee/Issuing authority/Registration no.	Date of issue/ Date of expiry	Nature of approval or license	Material conditions imposed	Compliance status
(c)	i-Stone Solutions / MITI / 4595	5 December 2013 / 4 December 2018	<p>Certifying that i-Stone Solutions shall be considered as a pioneer company pursuant to PIA 1986 to undertake the following pioneer activities:⁽¹⁾</p> <p>(a) Establish and operate a shared services / outsourcing centre rendering Information Technology outsourcing and knowledge process outsourcing services in:</p> <ul style="list-style-type: none"> • Application development and maintenance • Software development • Engineering and process design service <p>Provision of implementation, technical services and maintenance related to the abovementioned services in accordance to the business plan</p>	Nil	N/A
(d)	i-Stone Systems / MIDA	20 January 2017 / N/A	<p>i-Stone Systems has obtained the Pioneer Status pursuant to PIA 1986 which grants a tax exemption of up to 70% of the statutory income for a period</p>	<p>(i) Added value for the production of the company must fulfill at least 40% as proposed</p> <p>(ii) Number of employees at all level of management, technical and supervisory</p>	Complied Complied

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS (cont'd)

No.	Licensee/Issuing authority/Registration no.	Date of issue/ Date of expiry	Nature of approval or license	Material conditions imposed	Compliance status
			five (5) years in respect of the production of 'automated test machines and related parts'	(iii) At least 80% of the total workforce of the company must comprise of Malaysians. Employment of foreigners is subject to current policies	Complied
			i-Stone Systems is currently exempted from the provisions of the ICA 1975	(iv) Company must apply for a certificate of registration of pioneer within 24 months from the date of approval (i.e. 20 January 2017). Failure to do so will result in the withdrawal of the approval	Complied
				(v) To inform MIDA of any change in the location of the factory	Complied
				However, in the event that the shareholders' funds of the company exceed RM2,500,000.00 or the number of employees of the company increases to 75 or more, i-Stone Systems is required to apply for a manufacturing license under ICA 1975	
(e)	i-Stone Systems / MITI / 5367	1 January 2017 / 31 December 2021	Certifying that i-Stone Systems is entitled to a tax exemption of 70% on its statutory income for 5 years pursuant to the PIA 1986 and shall be considered as a pioneer company to undertake activities involving 'automated test systems and related parts' ⁽¹⁾	i-Stone Systems is granted pioneer status subject to the following conditions: (i) Added value for the production of the company must fulfil at least 40% as proposed (ii) Number of employees at all level of management, technical and supervisory must reach at least 50% of the total workforce of the company	Complied

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS (cont'd)

No.	Licensee/Issuing authority/Registration no.	Date of issue/ Date of expiry	Nature of approval or license	Material conditions imposed	Compliance status
(f)	i-Stone Systems / MITI / A021468	12 September 2018 / N/A	Licensed manufacturer from 12 September 2018 at the place of manufacturing at No. 12-2 Jalan Persiaran Teknologi, Taman Teknologi 81400 Senai Johor for 'automated test machines and related parts'	<p>(iii) At least 80% of the total workforce of the company must comprise of Malaysians. Employment of foreigners is subject to current policies</p> <p>(i) MITI and MIDA must be notified of any sale of shares in the company</p> <p>(ii) The company must train Malaysians so that any transfer of expertise can be channelled throughout all position levels</p> <p>(iii) The company must comply with the Capital Investment Per Employee (CIPE) ratio of at least RM140,000</p> <p>(iv) Total workforce of the company must comprise of at least 80% Malaysians. The employment of foreigners is subject to current policies</p> <p>(v) The company must forward all information relating to investment achievements and implementation of projects pursuant to ICA 1975 and MIDA Act 1965 upon request by MIDA.</p> <p>(vi) The company must implement the projects as approved and in compliance with the laws of Malaysia</p>	Noted Noted Complied Complied Noted Noted

APPENDIX I – MAJOR APPROVALS, LICENSES AND PERMITS (cont'd)

Note:

- (1) In light of Malaysia's recent commitment to implement and adhere to international taxation standards, particularly Base Erosion and Profit Shifting ("BEPS") Action Plan introduced by the OECD and G20 countries, the Government of Malaysia will be reviewing all relevant legislation and guidelines relating to relevant tax incentives of Malaysia so as to be consistent with the minimum standards under the aforementioned BEPS Action Plan.

As such, starting from 1 July 2018, MDeC will no longer be granting new approvals for applications for MSC Malaysia Status, including applications for extension of income tax exemption period or applications to add new MSC Malaysia qualifying activities. Companies that were granted approval for tax incentives prior to 17 October 2017 and are currently enjoying existing tax incentives will have the option to continue receiving the same treatment until 30 June 2021 or be subject to the new legislation and guidelines once the same come into effect.

The aforementioned changes that are taking place will affect the extension of pioneer status of i-Stone Solutions (which expired on 4 December 2018), as any extension application will only be considered once the new legislation and guidelines come into force.

The changes however will not affect the tax incentives enjoyed by i-Stone Systems, whose pioneer status was issued on 1 January 2017 and expires on 31 December 2021. i-Stone Systems may choose to continue enjoying its existing tax incentives until 31 June 2021 or move into the new regime and be subject to new legislation and guidelines.

The new legislation and guidelines on the new criteria/conditions are currently under review by the Government. As such, the actual impact on the tax incentives currently enjoyed by our Group cannot be ascertained as at this juncture.

[The rest of this page is intentionally left blank]