8. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP AND INVESTMENT CONSIDERATIONS SET OUT BELOW ALONG WITH OTHER INFORMATION CONTAINED HEREIN IN THIS PROSPECTUS BEFORE YOU MAKE YOUR INVESTMENT DECISION. IF YOU ARE IN ANY DOUBT AS TO THE INFORMATION CONTAINED IN THIS SECTION, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS.

8.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

8.1.1 Our financial performance may not be sustainable

In FYE 2016 and FYE 2017, we recorded GP margins and PAT margins which are significantly higher than FYE 2015 and FYE 2018 as follows:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
GP margin (%)	7.47	13.73	14.02	9.66
PAT margin (%)	1.96	5.67	6.10	4.33

Our GP margins depend on our average selling price. The average selling price for each of our product segments for the FYEs 2015 to 2018 is as follows:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Average selling price	**RM/MT**	**RM/MT**	**RM/MT**	**RM/MT**
Steel processing				
- Flat products (1)	2,512	2,565	3,168	3,166
Steel manufacturing				
- Long products (2)	2,371	2,484	3,072	3,236
- Building materials (3)	2,542	2,579	2,978	3,047
Trading (4)	2,364	2,283	2,849	3,065

Notes:

(1) Slit coils and steel sheets.
(2) Steel pipes, flat and square bars.
(3) Expanded metals, checkered plates and C Purlins.
(4) Steel plates, steel pipes, round bars, angle bars and wire mesh.

In FYE 2016, we recorded a significant increase in our GP margin from 7.47% to 13.73% mainly because we secured higher average selling prices for both steel processing and steel manufacturing divisions which is in line with the increase in the global steel coil price of 9.23% from 2015 to 2016 as stated in the IMR Report.

In FYE 2017, we continued to record a high GP margin mainly due to the increase in average selling price in line with the increase in global steel coil prices of 22.48% from 2016 to 2017 as stated in the IMR Report.

8. RISK FACTORS *(Cont'd)*

Based on the above, our high GP margin for FYE 2016 and FYE 2017 were due the continued increase in average selling prices which is positively correlated with global steel coil prices.

During FYE 2018, the global steel prices increased by 13.88% from 2017 to 2018. This resulted in a corresponding increase in the weighted average cost per MT. Whilst the average selling price of our products has increased, such increase was not enough to effect the increase in weighted average cost per MT when our finished goods were sold, which resulted in a decrease in our GP margin, as we are only able to pass on a portion of the increase in cost to our customers.

Based on the above, our profitability is dependent on the global steel prices and in the event of substantial increase in the global steel prices, our profitability will depend on our ability to pass on such increase in cost to our customers via the increase in our selling prices.

In addition, we had benefited from tax savings in the form of capital reinvestment allowance of RM2.28 million for FYE 2015 and RM5.53 million for FYE 2016. The tax savings had reduced our effective tax rate for FYE 2015 and FYE 2016 and had a positive effect on our PAT margins.

Our taxation and effective tax rate for the 4 FYEs 2015 to 2018, are as follows:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Taxation	827	2,401	5,956	3,548
Effective tax rate (%)	16.58	16.46	27.48	23.93
Statutory tax rate (%)	25.00	24.00	24.00	24.00

Since FYE 2017, our Group no longer benefit from any capital reinvestment allowance as we did not invest in any machinery which entitles us to capital reinvestment allowance. As a result, our effective tax rate in FYE 2017 had increased to 27.48%, which is higher than the statutory tax rate of 24.00%. Our effective tax rate for FYE 2018 was 23.93% which is in line with the statutory tax rate for the year of 24.0%.

Based on the above, we wish to highlight that:

(i) our GP margin will not be sustainable if there is a significant decrease in global steel coil prices going forward which will reduce our average selling prices. As such, the historical trend of our GP margin does not reflect our future GP margin trend; and

(ii) in the past FYE 2015 and FYE 2016, our effective tax rates were lower than the statutory tax rates as we benefited from capital reinvestment allowance.

    As part of our future plans, we plan to acquire 5 wire mesh manufacturing lines. We plan to apply for capital reinvestment allowance which if successfully applied, will result in a lower effective tax rates.

    However, once the capital reinvestment allowance is fully utilised, we will no longer benefit from such tax savings, hence our effective tax rates will be higher.

8.1.2 We are subject to fluctuations in the price of raw materials resulting from the fluctuations in global steel prices

Our Group's raw materials mainly consist of hot rolled steel coils, hot rolled pickled and oiled coils, cold rolled steel coils, hot dip galvanised steel coils, galvannealed steel coils and electro-galvanised steel coils. Raw materials are the largest component in the cost of sales, consistently constituting more than 90% of our total cost of sales. The price of our raw materials fluctuates according to global steel prices.

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

According to the IMR Report, the average monthly cost of steel coils (which consists of hot rolled steel coils, cold rolled steel coils and hot dipped galvanised steel coils) recorded annual growth rates of -24.17%, 9.23%, 22.48% and 13.88% in 2015, 2016, 2017 and 2018 respectively.

The average cost of sales/MT* for each of our product segments for the FYEs 2015 to 2018 is as follows:

	Audited							
	FYE 2015		**FYE 2016**		**FYE 2017**		**FYE 2018**	
	MT	**RM/MT**	**MT**	**RM/MT**	**MT**	**RM/MT**	**MT**	**RM/MT**
Steel processing								
- Flat products	64,098	2,312	60,814	2,226	60,018	2,737	57,648	2,902
Steel manufacturing								
- Long products	15,019	2,253	18,846	2,139	16,482	2,616	19,505	2,786
- Building Materials	3,721	2,351	2,968	2,125	3,519	2,549	4,433	2,821
Trading	2,629	2,142	1,865	1,747	2,274	2,295	464	2,696

Note:

* The average cost of sales/MT is calculated based on the total cost of sales attributable to the product segment divided by the total sales volume.

The changes in annual growth rate of global steel coils have affected our cost of sales for the FYEs under review in the following manner:

(i) In FYE 2016, our average cost of sales/MT decreased as we managed to secure our inventory in end FYE 2015 at a low price which is consistent with the global steel coil prices where the average monthly cost of steel coils recorded annual growth rates of -24.17% in 2015.

(ii) In FYE 2017, we recorded an increase in average cost of sales/MT due to the high cost of inventory recorded in FYE 2017 which is in line with the increase in global steel coil prices where the average monthly cost of steel coils recorded annual growth rates of 22.48% in 2017.

(iii) In FYE 2018, we recorded an increase in average cost of sales/MT due to the high cost of inventory recorded in FYE 2018 which is in line with the increase in global steel coil prices where the average monthly cost of steel coils recorded annual growth rates of 13.88% in 2018.

Our Group practices weighted average basis in computing the cost of inventories in the preparation of our accounting report. The costs are computed based on the weighted average purchasing cost of the raw materials in the respective financial year. A lower cost of raw materials will lead to a lower weighted average cost per unit, and subsequently leads to a lower cost of sales, and vice versa. Kindly refer to Section 11.2.2(b) on the effect of raw material prices on our cost of sales for the past 4 FYEs.

8.1.3 We face competition within the steel processing and steel manufacturing industry

We compete with other steel processing and steel manufacturing industry players in terms of product pricing, range and quality of products, service offerings, ability to deliver on timely manner and availability of stock, amongst others.

We compete with the key industry players listed in the IMR Report. These key industry players are steel processing companies incorporated in Malaysia and are involved in the processing (i.e., slitting and shearing) of steel coils into slit coils and steel sheets and manufacturing of steel products, amongst other business activities, based on publicly available information on the products and services they offer.

Apart from the existing industry players, we may also face competition from new industry players. However, the barrier of entry to steel processing and steel manufacturing industry is high. This is because steel processing and steel manufacturing require high initial capital for purchasing of raw material and for the set up manufacturing facilities, machinery and equipment and storage facilities. Hence, if the new industry players have the ability to secure sufficient sales to sustain its business operations in the long term and compete with the existing players in the market, they are likely to able to sustain their business and remain competitive in the market.

The competition that we face from other industry players may impact our revenue and profitability as we may be forced to be more price competitive in order to secure sales orders.

Further, our products need to be of the required quality, and as such, we must strive to ensure that we are able to supply our products in accordance with the specifications required by our customers. It is also important that we are able to consistently deliver our products to our customers based on their timing requirements.

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

8.1.4 We are subject to foreign exchange fluctuation risks which may impact the costs of our raw materials

A substantial amount of our raw material purchases are denominated in USD. Our Group's GP margin is therefore directly affected by foreign exchange fluctuations. The following is our Group's breakdown of purchases made in USD and RM during the FYEs 2015 to 2018:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchases transacted in USD	60,385	33.22	52,421	31.18	79,857	33.18	100,458	55.79
Purchases transacted in RM	121,378	66.78	115,689	68.82	160,829	66.82	79,594	44.21
	181,763	**100.00**	**168,110**	**100.00**	**240,686**	**100.00**	**180,052**	**100.00**

The purchases transacted in USD are largely for the purchase of hot rolled steel coils, cold rolled steel coils, galvannealed steel coils and hot dip galvanised steel coils.

A depreciation of the RM against the USD will lead to higher costs of raw material in RM. In such circumstances, we will pass the additional costs arising from the depreciation of RM against the USD to our customers. As our sales are transacted predominantly in RM whereby approximately 99.0% of our Group's revenue is derived locally, depreciation of the RM against the USD may ultimately affect the cost of our purchases and may adversely affect our financial performance as it would reduce our GP margin if we are unable to pass the costs to our customers in a timely manner.

In the FYE 2018, our purchases from overseas suppliers amounted to RM100.46 million. Our exposure to foreign exchange risk for imports of raw materials is typically 3 months starting from the confirmation of purchase orders to shipment.

For illustration, assuming:

- Our Group did not hedge our exposure by entering into forward contracts;
- The fluctuation of RM against the USD is 5% for a period of 3 months; and
- The additional costs resulted from foreign exchange fluctuations are not passed to our customers.

This will result in a gain or loss in GP of approximately RM5.02 million, depending on the direction of foreign exchange movement between RM and USD.

We had entered into USD denominated forward contracts to hedge our exposure against fluctuations in foreign exchange for the import of raw materials. In the past 4 FYEs, we incurred losses arising from the fluctuations in foreign exchange from the forward contracts that we entered into, as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Net loss	61	12	40	93

Note:

The losses are due to the differences between foreign exchange spot as at respective FYE and forward contract rates entered into by our Group.

8.1.5 We are dependent on our major supplier

We purchase our raw materials from local and overseas suppliers. For certain grades of cold rolled coils, we purchase only from CSC Steel Sdn Bhd as it is one of the few local producers of these grades of cold rolled coils. We do not import these grades of cold rolled coils as Government regulations in Malaysia stipulates that any imports of the same grades of cold rolled coils produced by local producers are subject to import duties.

In the past 4 FYEs 2015 to 2018, our purchases from CSC Steel Sdn Bhd are as follows:

	Purchases from CSC Steel Sdn Bhd	Percentage of our total purchases
	RM'000	%
FYE 2015	57,311	31.53
FYE 2016	82,592	49.13
FYE 2017	115,758	48.09
FYE 2018	56,530	31.40

Notwithstanding that the length of relationship with CSC Steel Sdn Bhd is 20 years, there is no assurance that we will be able to continue to purchase from them in the future. In such event, we will need to import these grades of cold rolled coils which are subject to import duties of 15%. Over the past 4 FYEs, the average annual purchase from CSC Steel Sdn Bhd amounted to RM78.05 million. If we were to import the same amount of certain grades of cold rolled coils which we have been purchasing from CSC Steel Sdn Bhd, we will incur an import duty of 15% which would translate to an additional cost of RM11.71 million annually. This may increase our cost of raw materials and our exposure to foreign exchange as transactions will be paid mostly in USD which may materially and adversely affect our profitability if we unable to pass down the cost to our customers on a timely manner.

8.1.6 We are dependent on our key senior management for continued success and the loss of their continued services may affect our business

Our continued and future success largely depends on our ability to hire, develop, motivate and retain qualified personnel needed to support our business operations. Having a strong key senior management is vital to maintain the quality of our Group's products and services whilst retaining the business confidence of our customers. While our Group has put in place a management succession plan to ensure business continuity, the loss of our key personnel simultaneously or within a short time may create an unfavourable or material impact on our Group's operations, if we are unable to timely replace or attract and retain talents.

We have not experienced any departure of any key senior management which has had a material effect on our business operations in the past.

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

Our Group's processing and manufacturing activities utilise machinery and equipment such as levelling and shearing machines, slitting machines, steel pipe machines, expanded metal machines and flat and square bar forming machines, amongst others. These machinery and equipment may, on occasion, be out of service as a result of unanticipated failures or damages sustained during operations. Further, our manufacturing plant is also subject to loss due to floods and fires.

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

We have not experienced any past incidence of unanticipated failures or damages sustained during operations which led to major interruptions in our operations.

Any prolonged interruptions in our business operations will affect our production schedules and timely delivery of our products to our customers which may cause cancellation of purchase orders and may eventually impact our relationships with our customers. This could have an adverse impact on our business, financial conditions and results of operations.

8.1.8 We may not be able to effectively manage our growth or successfully implement our business strategies

We plan to enhance our market presence through expansion of our existing steel processing and manufacturing business, as well as expansion into the manufacturing of wire mesh. Please refer to Section 6.18 for further details of our business strategies and prospects.

Our business strategies involve a number of cost-related risks, including but not limited to, increased capital expenditures, increased depreciation charges, higher machinery and equipment maintenance costs and higher staff costs, as follows:

Business strategies and implementation plans	Cost-related risks
We intend to expand our steel manufacturing activities to include the manufacturing of wire mesh	
- Land acquisition [i] and construction of new factory	• Increased operating expenditure arising from cost to maintain and operate the new factory including utility fees, cleaning fees and service and maintenance fees • Increased depreciation charges
- Acquisition of 5 new wire mesh production lines	• Increased operating expenditure arising from machinery and equipment maintenance costs and staff costs • Increased depreciation charges
We aim to increase our production volume by increasing the capacity of our existing steel processing line and to expand our storage space to cater to the increase of our production volume	
Increase the capacity of our existing steel processing line by purchasing a new slitting line	• Increased operating expenditure arising from machinery and equipment maintenance costs and staff costs • Increased depreciation charges

Note:

(i) While we have identified a few suitable parcels of land within the proximity of our existing factory, we may not be able to successfully acquire suitable land with close proximity to our existing factory for the construction of our new factory, due to several reasons including, amongst others, no suitable land available for sale or the land is available at a non-commercially viable price.

In such event, we intend to acquire an existing factory building within the Seberang Perai area. The acquisition of factory building is not expected to cause any delays to the implementation of our business strategy to expand our steel manufacturing activities to include the manufacturing of wire mesh and to increase the capacity of our steel processing line and storage space. This is because the time required to acquire and renovate an existing factory building is shorter than the time required to acquire a land to construct a new factory.

However, if we are unable to acquire any suitable land or factory building, there will be delay in the implementation of this business strategy.

The increase in operating expenditure, machinery and equipment maintenance, depreciation charges and staff costs following the implementation of the above business strategies, will consequentially increase our Group's overall operational cost, including overhead costs and cost of goods sold. Such increase in cost will adversely affect our gross profit and gross profit margin if we are unable to secure sufficient purchase orders from our customers following the implementation of the above business strategies. In such event, our financial performance may be adversely affected.

We are not able to guarantee that we will be successful in executing our business strategies, nor can we assure that we will be able to anticipate all the business and operational risks arising from our business strategies, including delays in construction, delays in obtaining approval from the relevant government bodies for the construction of the new factory and delays in machine delivery, among others. Any failure to do so, including any failure or inefficiencies in managing our business growth, may lead to a material adverse effect on our business operations and financial performance.

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

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

As at LPD, the Group has taken up the following insurance policies:

(a) Fire, public liability and burglary policies, collectively up to an aggregate sum insured of RM169.2 million;

(b) Marine open cover policy for shipment of goods by sea with an estimated turnover amount of RM95.0 million and a total sum insured of RM6.0 million; and

(c) Trade credit insurance policy with an estimated domestic turnover of RM70.0 million.

However, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations. For example, while we are insured against losses resulting from fires and burglary, we do not maintain insurance against losses at our manufacturing plants as a result of natural disasters.

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

8.1.10 We may not be able to secure funding, especially on terms acceptable to us, to meet our capital requirement

Our ability to obtain external financing are subject to various uncertainties, including our future results of operations, financial condition and cash flows, the performance of the Malaysian economy and the markets for our products, the cost of financing and the condition of financial markets, and the continuing willingness of banks to provide new loans. We cannot assure that any required financing, either on a short-term or long-term basis, will be made available to us on terms satisfactory to us or at all.

If adequate funding is not available when needed, or is available only on unfavourable terms, meeting our capital needs or otherwise taking advantage of business opportunities or responding to competitive pressures may become challenging, which could have a material and adverse effect on our business, financial condition and results of operations.

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

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000			
Bank borrowings				
Within the next 12 months	62,922	31,321	50,618	18,098
After the next 12 months	2,258	844	155	-
Hire Purchases				
Within the next 12 months	497	525	487	53
After the next 12 months	916	601	115	61

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

We have not entered into any long-term contracts with our customers. The lack of long-term contracts is mainly due to the nature of our business and prevailing customer practices which is subject to our customers' specific need for the steel products, thus frequent product specification changes.

The absence of long-term contracts may result in the fluctuation of our Group's sales and overall business performance as our sales are based on purchase orders whereby our customers will purchase our products on a project-to-project basis or on an as-needed basis. While our Group continuously seeks to maintain and strengthen existing business relationships and establish relationship with new customers to expand our clientele base, any adverse economic conditions, or slowdowns in the industries in which our customers operate, may negatively impact our sales, which will subsequently result in a decline in our financial performance.

8.1.12 We may be subject to impairment loss or bad debts

We generally grant our customers credit periods between 14 to 90 days. In the event payment is not received within the credit period or default in payment by our customers, we may provide impairment loss on trade receivables or write off trade receivables as bad debts, which will adversely affect our financial performance. As at the LPD, trade receivables past due but not impaired amounts to RM8.55 million or 14.01% of total receivables.

Our allowances for impairment loss for the financial years under review are as follows:

	Audited FYE 2015	Audited FYE 2016	Audited FYE 2017	Audited FYE 2018
	RM'000	**RM'000**	**RM'000**	**RM'000**
Allowance for impairment loss	-	680(i)	535(ii)	26(iii)

Notes:

(i) In FYE 2016, we provided for RM0.68 million allowance for impairment debtors where our management was doubtful on the recoverability of 5 debtors, whereby 3 debtors have debts overdue for 6 months and doubtful in recoverability as well as 2 debtors have ceased operations and is undergoing liquidation.

(ii) In FYE 2017, our allowance for impairment loss was reduced to RM0.53 million due to lower doubtful debts from 4 debtors, whereby 2 debtors have debts overdue for 6 months and doubtful in recoverability as well as 2 debtors (same debtor where provision was made in FYE 2016) has ceased operations and is undergoing liquidation.

(iii) In FYE 2018, our allowance for impairment loss was reduced to RM0.03 million due to lower doubtful debts from 4 new debtors.

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

We utilise bankers' acceptance and revolving credit to finance our working capital, which includes stocks and trade receivables; while term loan is utilised for the construction of factory building and purchase of machinery; and hire purchase financing is utilised for the purchase of motor vehicle and machinery.

The breakdown of our finance cost for the past 4 FYE is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bankers' acceptance	2,523	88.90	2,084	88.64	2,105	94.18	2,731	94.53
Revolving credit	35	1.23	26	1.11	-	-	112	3.88
Term loan	276	9.73	162	6.89	81	3.63	25	0.86
Hire purchases	4	0.14	79	3.36	49	2.19	21	0.73
	2,838	**100.00**	**2,351**	**100.00**	**2,235**	**100.00**	**2,889**	**100.00**

In view that interest charged on the bank borrowings is dependent on prevailing interest rates, any significant increase in interest rates will significantly increase our interest expense and hence will have a material adverse effect on our profitability. Our outstanding borrowings are charged with fixed rates or floating rates, depending on the types of borrowings. While the interest for the borrowings charged with fixed rate will be unchanged, we are more likely to be impacted by the unfavourable fluctuations of floating rates which may increase the interest that we are required to pay. In addition, the agreements for credit facilities contain covenants which may limit our future operating and financing flexibility such as restrictions in future borrowings, creation of new securities and disposal of its capital assets. A breach of such covenants may result in the termination and/or enforcement of securities granted for the relevant credit facility.

There can be no assurance that our financial performance would remain favourable in the event of any adverse change in interest rates.

8.1.14 High inventory holding cost

Due to our position as an intermediary between the steel mills and our customers, we keep sufficient level of inventory to provide timely delivery to our customers. In order to ensure that our inventory is sufficient, we conduct a monthly management meeting to review the stockholding level and inventory ageing analysis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

Our average inventory turnover period for FYE 31 December 2018 is 130 days. The cost of inventory holdings in our warehouse may affect our financing cost due to the following:

(i) Most of our purchases are financed by trade financing facilities which are subject to interest charges which increases our financing costs; and

(ii) In the event future direction of steel prices is uncertain, our customers may choose to reduce their purchases in anticipation of better pricing. As a result, our inventory holding period may lengthen which prolongs our trade financing period and increases our financing costs.

An increase in our financing cost will result in a lower profitability and will affect our financial performance. Moreover, in the event there is a drop in steel prices, we may experience an exceptional write down in the carrying amount of our inventories to the net realisable values which may affect our financial performance.

The impairment on slow moving stocks for the past 4 FYEs is as follows:

	Audited FYE 2015	Audited FYE 2016	Audited FYE 2017	Audited FYE 2018
	RM'000	RM'000	RM'000	RM'000
Impairment on slow moving stocks	652	810	- (i)	1,525 (ii)

Notes:

(i) We recorded other income of RM0.25 million from the reversal of inventories previously written down from sale of inventories above its carrying value.

(ii) Due to the lower net realisable value of slow moving stocks recorded as at 31 December 2018 as the market price of the slow moving stocks were lower as at 31 December 2018.

8.2 RISKS RELATING TO OUR INDUSTRY

8.2.1 We are subject to changes in import duty regulations in the steel industry

The steel industry in Malaysia is subject to Government regulations on the imposition of import duties, as follows:

(i) Import duty for long products is levied at 5.0% as at the LPD; and

(ii) Import duty for flat products is levied at 15.0% as at the LPD.

Notwithstanding this, the Government allows for import duty exemptions, based on the issuance of approval permits, as follows:

(i) Import duty exemption is given for imports of flat products based on the following conditions:

(a) raw materials used for the production of finished goods for export market;
(b) products for which grades and specifications are not produced locally; and
(c) products used as raw material to produce nil duty finished goods.

(ii) Import duty exemption is given to Steel Service Centres for product grades and specifications not produced locally.

For flat products, our Group currently enjoys import duty exemptions as a Steel Service Centre, based on the issued approval permits, as follows:

Raw materials/ Components	**Tariff code**
Hot-dip galvanised steel sheet in coil	7210491900
Hot rolled steel sheet in coil (Pickled & Oiled)	7208 250000, 7208 260000, 7208 271900, 7208 279900
Hot-dip galvannealed steel sheet in coil	7210 49 2100, 7210 49 1300, 7210 49 1900
Hot rolled steel sheet in coil/ hot rolled carbon steel strip & sheet of commercial and drawing qualities / hot rolled steel coil for general structural / hot rolled carbon steel strips for pipe & tube / SAE carbon steel coil / hot rolled plates & strips of non-alloy structural steels	7208 39 9000, 7208 39 1000, 7208 38 0000, 7208 37 0000, 7208 36 0000
Electro-galvanised steel sheet in coil (one side coating)	7210 30 1100, 7210 30 1200, 7210 30 1900
Hot-dip aluminised coated steel sheet in coil	7210 69 1100, 7210 69 1200, 7210 69 1900

In the FYE 2018, 26.99% of our imported raw materials from overseas suppliers were subject to import duty, while the remaining 73.01% of the imported raw materials were not subject to import duty. All of the 26.99% of the imported raw materials which were subject to import duty were exempted from import duty based on the issuance of approval permits hence no payment was made for import duty in FYE 2018.

If we are unable to obtain the necessary exemption from import duty, we will be required to pay the import duty which is levied at 5.0% for long products and 15.0% for flat products, which will increase our cost of raw materials. In the FYE 2018, the amount of imports which were exempted from import duty was 26.99% amounting to USD5.85 million, comprising all flat products. If we are unable to obtain the necessary exemption from import duty, we would need to incur an additional USD0.88 million of import duty for the import of these flat products. In such circumstances, we will pass the additional costs arising from the import duty to our customers. Nevertheless, our GP margin will be reduced and our profitability will be adversely affected if we are unable to pass the costs to our customers in a timely manner.

Any changes in import duty regulations, specifically the removal of import duty exemptions and/or increases in import duties, including imposition of anti-dumping duties, will result in an increase in the cost of imported raw materials. On 8 March 2019, the Government announced anti-dumping duties of up to 16.13% for a 5-year period against galvanised steel coils or sheets imported from China and Vietnam. On 8 May 2019, the Government also announced a revision of anti-dumping duties up to 42.08% for a 5-year period against for cold rolled coils of alloy and non-alloy steel imported from China, South Korea and Vietnam. The imposition of these anti-dumping duties is expected to increase the cost of materials for steel processing centres who source the respective products from China, South Korea and Vietnam. If we are unable to source raw materials which are affected by anti-dumping duties from local manufacturers, we will be required to import these raw materials and be subject to higher prices of raw materials. Furthermore, if we are unable to pass on this increase to our customers, our cost of sales will increase and subsequently affect our Group's profitability. This might result in a decline in our overall financial performance.

8.2.2 We are dependent on the manufacturing, automotive, engineering and steel fabrication as well as construction industries in Malaysia

The end-user industries in which we supply to, in particular the manufacturing, automotive, engineering and steel fabrication as well as construction industries, are major users of steel products, where the revenue generated from these industries accounted for 16.49%, 17.22%, 8.69% and 4.81% respectively to our total sales in the FYE 2018.

Products from our steel processing division, i.e. slit coils and steel sheets are used in engineering and steel fabrication, automotive and manufacturing industries; and products from our steel manufacturing division, i.e. steel pipes, flat and square bars, expanded metals, checkered plates and C Purlins, are used mostly in the engineering and steel fabrication, construction and manufacturing industries.

Any slowdown in these industries may lead to a decrease in demand for steel. This would negatively affect the overall demand for our Group's products and services, thereby affecting our Group's financial performance. In FYE 2018, we anticipated a slowdown in construction industry. In response, we decrease our inventory levels from RM103.15 million as at 31 December 2017 to RM64.77 million as at 31 December 2018.

8.2.3 We rely on foreign workers in our operations

We rely on foreign workers in our operations. Our foreign workers are primarily from Nepal.

As the standard of living in Malaysia improves over time, we have found it increasingly difficult to hire local production workers for our manufacturing operations, and this difficulty may increase in the future. In addition, the costs of foreign labour may continue to increase in the future. A new levy rate for foreign workers was also implemented effective 18 March 2016 for Peninsular Malaysia only, where the levy rate for the manufacturing, construction and services sectors increased by RM600 to RM1,850. Increase in levy rates for foreign workers will increase our costs for labour which may consequently increase our cost of sales.

In February 2016, the Government announced a freeze on recruitment of foreign workers from all source countries. Shortly after, the Government granted an uplift of foreign worker recruitment freeze for 4 sectors namely manufacturing, construction, plantation and furniture-making industries in May 2016 in light of major shortage of workers in these industries.

Currently, we obtain 1-year working permit for our foreign workers, which are renewed annually. If visa policies on foreign workers in Malaysia were to change in any way resulting in difficulties for our Group to maintain a sufficient foreign labour workforce, our business, financial condition and results of operations could be materially and adversely affected. In addition, our Group's business strategies which will involve expansion in our manufacturing operations, would require a corresponding increase in labour of up to 24 foreign workers to meet increased manufacturing activities with up to 4 foreign workers for each of our 5 new wire mesh lines and 4 foreign workers for 1 new slitting line.

8.3 RISK RELATING TO THE INVESTMENT IN OUR SHARES

8.3.1 There has been no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration 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 our 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 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.

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

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

(a) The identified investors fail to subscribe for the portion of our IPO Shares under the private placement to selected Bumiputera investors approved by the MITI and selected investors;

(b) Our Joint Underwriters 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 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

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

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.00% 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, among others, the sanction of our shareholders by special resolution in a general meeting, consent of our creditors (if required) and the confirmation of the High Court of Malaya (if required). There can be no assurance that such monies can be recovered within a short period of time or at all in such circumstances.

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

The trading price 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 price of our listed shares.

8.4 OTHER RISKS

8.4.1 Our Promoters will be able to exert significant influence over our Company

Our Promoters will collectively hold 67.10% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of our shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

8.4.2 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 customer base and the need to maintain and expand our service offering. Thus, we may need additional capital expenditure for future expansions and/or investments. An issue of new Shares or other securities to raise funds will dilute shareholders' equity interest and may, in case of a rights issue, require additional investment by shareholders.

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9. RELATED PARTY TRANSACTIONS

9.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, we have not entered into any related party transaction with related parties which involves the interests, direct or indirect, of our Directors, substantial shareholders, key senior management personnel and/or persons connected with them for the past 4 FYEs 2015 to 2018 and up to the LPD.

(i) Sale of goods to related parties:

		Value of transactions/Percentage of revenue									
		FYE 2015		FYE 2016		FYE 2017		FYE 2018		Up to the LPD	
Company	**Nature of transaction**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Litat Hardware Sdn Bhd ("Litat Hardware") [(1)]	Sale of goods to Litat Hardware, including steel pipes and steel plates	405	0.19	1,253	0.58	2,332	0.90	2,503	0.96	750	0.62
Prestar Group [(2)] [(3)]	Sale of goods to the Prestar Group including steel coils, slit coils and steel sheets	4,869	2.29	8,087	3.77	10,255	3.98	1,858	0.71	84	0.07

(ii) Purchase of goods from related parties:

		Value of transactions/Percentage of cost of sales									
		FYE 2015		FYE 2016		FYE 2017		FYE 2018		Up to the LPD	
Company	**Nature of transaction**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Prestar Group [(2)]	Purchase of goods from the Prestar Group including steel pipes, steel sheets, highway guardrail beam, channel post, equipment, and factory consumables and provision of slitting services	271	0.14	52	0.03	84	0.04	869	0.37	17	0.02

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

(1) Lim Choon Teik, our Managing Director, is also a shareholder of Litat Hardware.

(2) The following Directors and/or substantial shareholders are deemed interested:

(i) Prestar, our Promoter and major shareholder.

(ii) Toh Yew Keat, our substantial shareholder, is also the Executive Chairman of Prestar. In addition, he is also the major shareholder of Prestar (via direct and indirect shareholdings).

(iii) Dato' Toh Yew Peng, our Non-Independent Non-Executive Director and substantial shareholder, is also the Group Managing Director of Prestar. In addition, he is also the major shareholder of Prestar (via direct and indirect shareholdings).

(iv) Toh Yew Seng, our Non-Independent Non-Executive Director, is also the Group Executive Director of Prestar.

(v) Koay Kah Ee, our Non-Independent Non-Executive Director, is also the Group Finance Director of Prestar.

(3) During FYEs 2015 to 2018, Tashin Steel, then a 51%-owned subsidiary of Prestar, had sold goods to Dai Dong Steel Sdn Bhd ("Dai Dong"), which is a wholly-owned subsidiary of Prestar. Details of the transactions are as follows:

	Value of transactions/Percentage of revenue									
	FYE 2015		FYE 2016		FYE 2017		FYE 2018		Up to the LPD	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Sales to Dai Dong	**3,703**	**1.74**	**7,468**	**3.48**	**9,781**	**3.79**	**790**	**0.30**	**24**	**0.03**
- Sold at cost	3,110	1.46	7,051	3.28	9,330	3.62	-	-	-	-
- Sold at market price	593	0.28	417	0.20	451	0.17	790	0.30	24	0.03

For the FYEs 2015 to 2017, a portion of the sales to Dai Dong was at cost and were not made on arm's length basis. As such, these sales did not contribute to the PAT of our Group during the financial years under review. We have ceased such transactions as at LPD. Going forward, our Group will be selling our products to related parties, if any, on arm's length basis.

As at the LPD, there are no related party transactions entered into but not yet effected.

Save as disclosed in Note (3) above, our Directors are of the view that the above related party transactions were conducted on an arm's length basis and were carried out in the ordinary course of business and on competitive commercial terms not more favourable to the related parties than those generally available to the public and were not to the detriment of our non-interested shareholders.

Moving forward and as provided under the Listing Requirements, in order to ensure that the related party transactions are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures for all related party transactions:

(a) 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 is fair and reasonable and comparable to those offered by other third parties for the same or substantially similar type of products and/or quantities; or

(b) 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 other third parties for substantially similar type of transaction to ensure that the related party transactions are not detrimental to us.

To mitigate any potential conflict of interest arising from any related party transactions, our Board shall seek the approval from our non-interested shareholders for a mandate to continue to enter into such transactions at the next general meeting of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such transactions in our ordinary course of business without the need to convene numerous general meetings to approve such transactions as and when they are entered into.

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

In addition, to safeguard the interest of our Group and our non-interested shareholders, and to mitigate any potential conflict of interest situation, our Audit 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 regard to any related party transaction entered into by us.

9.1.1 Other transactions

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

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

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Loans and guarantees

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

(i) Corporate Guarantees

(aa) Prestar

Prestar, our major shareholder had extended the corporate guarantees for banking facilities extended to our Group amounting to RM66.93 million as at 31 December 2018. In conjunction with the Listing, the respective banks had agreed to discharge the said corporate guarantees subject to the condition that the Listing is completed. There are no other conditions imposed by the respective banks.

(bb) Formula Naga

Formula Naga, our major shareholder had extended the corporate guarantees for banking facilities extended to our Group amounting to RM64.30 million as at 31 December 2018. In conjunction with the Listing, the respective banks had agreed to discharge the said corporate guarantees subject to the condition that the Listing is completed. There are no other conditions imposed by the respective banks.

(ii) Advances to related parties

The following advances were made by our Group to Prestar, our major shareholder and were recorded as other receivables for the past 4 FYEs 2015 to 2018 and as at the LPD:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018	As at LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Other receivables					
• Amount due from Prestar	1,050	-	-	-	-

Advances amounting to RM5.0 million were made by our Group to Prestar in FYE 2010 (RM2.0 million) and FYE 2011 (RM3.0 million). These advances were made to Prestar for working capital purposes and do not carry any interest. The advances are payable on demand and were not classified as a short term or long term loan.

9. RELATED PARTY TRANSACTIONS *(Cont'd)*

(iii) Advances by related parties

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

	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000	As at LPD RM'000
Other payables					
• Amount due to Prestar Engineering Sdn Bhd and Prestar Precision Tube Sdn Bhd	-	5,827	-	-	-

On 1 March 2016, 3 of Tashin Steel's bank accounts were frozen at the request of RMCD in relation to the import duty investigation as highlighted in Section 11.2.1(g)(ii). The accounts frozen include banking facilities for bankers' acceptance and bank overdrafts totalling RM59.80 million.

As a result, we had limited banking facilities for the purchase of raw materials. In order to continue to purchase raw materials, Prestar Engineering Sdn Bhd and Prestar Precision Tube Sdn Bhd had advanced RM5.83 million to Tashin Steel for the purchase of raw materials during FYE 2016.

These advances do not carry any interest, are payable on demand and were not classified as a short term or long term loan.

As at the LPD, there is no outstanding amount due to related parties.

These advances under items (ii) and (iii) above were not made on an arm's length basis as the abovementioned advances were interest free. As at the LPD, these advances have been fully repaid. 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.

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10. CONFLICT OF INTERESTS

10.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND OUR SUPPLIERS

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

(a) Lim Choon Teik

Lim Choon Teik, our Managing Director, is involved in the following companies as Director and/or shareholder:

Company	Principal activities	Position held	% of shareholdings held
Cinlin Hardware Sdn Bhd	Trading of hardware and building materials including polyvinyl chloride ("PVC") pipes, clay pipes, copper pipes, steel pipes, tap fittings, water tanks etc	Shareholder	22.88
Cinlin Hardware (KL) Sdn Bhd	Trading of hardware and building materials including PVC pipes, clay pipes, copper pipes, steel pipes, tap fittings, water tanks etc	Shareholder	22.88
Cinlin Bathroom Solution Sdn Bhd	Trading of bathroom accessories and sanitary wares including shower screen, water heaters, kitchen sinks, shower panels, whirlpool, long bath, bi-fold door etc	Shareholder	22.88
Litat Hardware	Trading of steel hardware including hollow plates, angles, bars, pipes, shafts, structural steel, roofing sheet, expanded metals, C-Purlins, wire mesh etc	Shareholder	50.00
Litat Machinery Hardware Sdn Bhd	Trading of machinery and hardware including slip roll machine, welding machine, cutting machine, hydraulic press-break etc	Director/ Shareholder	50.00

His involvement in the abovementioned companies does not give rise to any conflict of interest or affect his responsibilities to our Group in view of the following:

(i) He is not involved in the day-to-day management and operations of these companies and as such, his involvement will not affect his ability to perform his executive role, will not influence his decision making in Tashin Holdings and affect his responsibilities in our Group. Save for his involvement as a Director of Litat Machinery Hardware Sdn Bhd, his involvement in these companies is limited to being as a shareholder; and

(ii) While there are common products sold by companies related to Lim Choon Teik and our Group, we do not view these companies as competitors to our Group as these companies' target customers are end consumers which purchase in small volumes, while our customers are mainly stockists, manufacturing, automotive, engineering, steel fabrication and construction companies which purchase in bulk.

(b) Prestar

Prestar, our major shareholder and Promoter is involved in the manufacture of various steel products, some of which are also manufactured by our Group.

A comparison of the products manufactured and related services by the Prestar Group and our Group is as follows:

Prestar Group	Tashin Holdings Group
Non-common products • Wheelbarrows • Platform hand trucks • Racking systems • Highway guardrails • Automotive steel pipes	**Non-common products** • Checkered plates • Expanded metals • C Purlins • Square bars • Flat bars
Non-common business • Hot-dip galvanising service • Powder coating service • Moulds and dye fabrication • Maintenance and installation of machinery • Manufacture and installation of storage and racking systems • Manufacture and sale of material handling equipment • Sale and rental of forklift and reachtruck • Trading of stainless steel pipes	**Non-common business** • Trading of steel products including round bars, angle bars and wire mesh
Common products • Steel sheets (by Prestar's associate company, POSCO-MKPC Sdn Bhd and Tashin Steel) • Slit coils (by Prestar's associate company, POSCO-MKPC Sdn Bhd and Tashin Steel) • Steel pipes (by Prestar's subsidiary company, Prestar Precision Tube Sdn Bhd and Tashin Steel) **Common business** • Trading of slit coils and steel sheets (by Prestar's subsidiary company, Dai Dong, Tashin Steel and Tashin Hardware)	

10. CONFLICT OF INTERESTS *(Cont'd)*

(i) Analysis on product segments

The segmentation between the common products and non-common products by revenue is set out below:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	Prestar (i) (RM'000)	Tashin Steel (ii) (RM'000)	Prestar (i) (RM'000)	Tashin Steel (ii) (RM'000)	Prestar (i) (RM'000)	Tashin Steel (ii) (RM'000)	Prestar (i) (RM'000)	Tashin Steel (ii) (RM'000)
Common products								
Slit coils and steel sheets								
- Trading	63,562	5,697	74,444	3,988	99,938	6,085	102,918	1,047
- Manufacturing	-	160,997	-	156,013	-	190,108	-	182,490
Steel pipes								
- Manufacturing	147,550	24,943	165,481	34,304	213,031	38,190	225,568	49,405
Non-common products	198,387	20,647	174,905	20,436	181,439	23,318	181,496	27,603
	409,499	**212,284**	**414,830**	**214,741**	**494,408**	**257,701**	**509,982**	**260,545**
Less: Inter-company elimination for sales to Prestar Group	-	(4,869)	-	(8,087)	-	(10,255)	-	(1,858)
	409,499	**207,415**	**414,830**	**206,654**	**494,408**	**247,446**	**509,982**	**258,687**

Notes:

(i) Excluding revenue contributed by Tashin Steel and the revenue from POSCO-MKPC Sdn Bhd, a 30%-owned associate company of Prestar is not consolidated to the financial statements of Prestar.

(ii) Tashin Steel was then a 51%-owned subsidiary of Prestar.

The segmentation between the common products and non-common products as a percentage of revenue is set out below:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018		4 years average	
	Prestar (i) (%)	Tashin Steel (ii) (%)	Prestar (i) (%)	Tashin Steel (ii) (%)	Prestar (i) (%)	Tashin Steel (ii) (%)	Prestar (i) (%)	Tashin Steel (ii) (%)	Prestar (i) (%)	Tashin Steel (ii) (%)
Common products										
Slit coils and steel sheets										
- Trading	15.5	2.7	17.9	1.9	20.2	2.4	20.2	0.4	18.5	1.8
- Manufacturing	-	75.8	-	72.6	-	73.8	-	70.0	-	73.0
Steel pipes										
- Manufacturing	36.0	11.8	39.9	16.0	43.1	14.8	44.2	19.0	40.8	15.5
Non-common products	48.5	9.7	42.2	9.5	36.7	9.0	35.6	10.6	40.7	9.7
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

(i) Excluding revenue contributed by Tashin Steel and the revenue from POSCO-MKPC Sdn Bhd, a 30%-owned associate company of Prestar is not consolidated to the financial statements of Prestar.

(ii) Tashin Steel was then a 51%-owned subsidiary of Prestar.

Based on the above, the revenue contribution for our Group was mainly from the manufacturing of slit coils and steel sheets, which ranged between 70.0% to 75.8% of total revenue for FYE 2015 to FYE 2018.

In comparison, the revenue contribution for the Prestar Group was from the manufacture of steel pipes which ranged between 36.0% to 44.2% and other non-common products which ranged between 35.6% to 48.5% of total revenue for FYE 2015 to FYE 2018.

(ii) Common Products

The common products offered by both Tashin Group and Prestar Group are steel sheets and slit coils as well as steel pipes.

(a) Steel sheets and slit coils

Prestar's trading of steel sheets and slit coils are made through its wholly-owned subsidiary, Dai Dong, which is principally involved in the importing and trading of steel materials and general hardware products.

In addition, Prestar has 30% equity interest in POSCO-MKPC Sdn Bhd, an associate company which is also involved in the processing (ie, slitting and shearing) of steel coils into slit coils and steel sheets.

The background information in relation to Prestar's shareholding in POSCO-MKPC Sdn Bhd is as follows:

Year	Events
1996	POSCO-MKPC Sdn Bhd was incorporated under the name Summit Steel Service Sdn Bhd on 5 January 1996 to undertake the processing (ie, slitting and shearing) of steel coils into slit coils and steel sheets.
2002	POSCO, a South Korean steel-making company acquired a 30% equity interest and the company changed its name to Posmmit Steel Centre Sdn Bhd.
2007	POSCO had increased its equity interest to 70%. The company changed its name to POSCO-MKPC Sdn Bhd.

In 2007, Prestar had relinquished board and management control of POSCO-MKPC Sdn Bhd to POSCO. Thereafter, Prestar is no longer involved in the day-to-day operations of POSCO-MKPC Sdn Bhd and is not in the position to influence the decision making process of POSCO-MKPC Sdn Bhd.

POSCO-MKPC Sdn Bhd is managed by its own management team and is not dependent on Prestar. Save for dividend income and equity accounting, Prestar does not receive any benefits from POSCO-MKPC Sdn Bhd.

We wish to highlight that Dai Dong and POSCO-MKPC Sdn Bhd sell the same end product as our Group and their targeted customers may also be our customers. As such, Dai Dong and POSCO-MKPC Sdn Bhd are considered as competitors to our Group.

(b) Steel pipes

Prestar's manufacturing of steel is through Prestar Precision Tube Sdn Bhd, its wholly-owned subsidiary. A detailed comparison is set out below:

Details	Prestar Group	Tashin Group
(i) Subsidiaries involved	Prestar Precision Tube Sdn Bhd	Tashin Steel
(ii) Principal activities	Manufacturing and supply of carbon steel pipes, hallow sections and precision steel pipes and automotive tubes	Processing of steel coils into slit coils and steel sheets as well as manufacturing of steel products including expanded metals, steel pipes and C Purlins
(iii) Manufacturing location	Rawang, Selangor	Perai, Penang
(iv) Customer concentration (4 years average)	Central Region (75.0%)	Northern and Eastern Region (71.2%)
(v) Customer type	Intermediaries such as manufacturing, automotive, engineering, steel fabrication and construction companies	

The Prestar Group manufactures its steel pipes in Rawang, Selangor while our steel pipes are manufactured in Perai, Penang.

The steel pipes manufactured by the Prestar Group are mainly sold to the Central Region with a concentration of 75.0% (4 years average) of the sales of steel pipes whilst steel pipes manufactured by our Group are mainly sold to the Northern and Eastern Region with a concentration of 71.2% (4 years average) of the sales of steel pipes. The sales concentration is dependent on the locality of the manufacturing facility of their customers primarily due to the delivery cost of their products to their customers.

We further wish to highlight that the Prestar Group also sells steel pipes in the Northern Region, at 10.3% (4 years average) of the sales of steel pipes and our Group also sells to the Southern Region, at 14.8% (4 years average) of the sales of steel pipes. This happens because when we deliver our products (other than steel pipes) to our customers, our customers will often request us to include steel pipes

10. CONFLICT OF INTERESTS *(Cont'd)*

as additional purchase to fill up the remaining space in the delivery trucks. This practice applies to the Prestar Group similarly.

The breakdown, by percentage of revenue between the Prestar Group and our Group in relation to steel pipes by geographical segmentation is set out below:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018		4 years average^	
	Prestar (%)	**Tashin Steel (%)**	**Prestar (%)**	**Tashin Steel (%)**	**Prestar (%)**	**Tashin Steel (%)**	**Prestar (%)**	**Tashin Steel (%)**	**Prestar (%)**	**Tashin Steel (%)**
Northern Region (Penang, Perak, Kedah and Perlis)	10.8	52.2	9.3	52.9	10.6	45.1	10.6	39.6	10.3	46.3
Eastern Region (Kelantan, Terengganu and Pahang)	1.5	29.6	1.7	23.5	1.4	24.0	1.7	24.3	1.6	24.9
Central Region (Kuala Lumpur and Selangor)	70.9	2.9	75.9	6.7	75.9	15.8	76.1	23.3	75.0	14.0
Southern Region (Johor)	16.8	15.3	13.1	16.9	12.1	15.0	11.6	12.8	13.1	14.8
East Malaysia (Sabah and Sarawak)	-	-	-	-	-	0.1	-	-	-	-*
	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes:

* Negligible.

^ The breakdown for the sales of steel pipes for Prestar and Tashin Steel for the 4 years average are as follows:

	Prestar		Tashin Group	
	RM'000	**%#**	**RM'000**	**%#**
Northern Region (Penang, Perak, Kedah and Perlis)	19,479	4.26	16,984	7.19
Eastern Region (Kelantan, Terengganu and Pahang)	2,912	0.64	9,157	3.87
Central Region (Kuala Lumpur and Selangor)	140,889	30.81	5,137	2.17
Southern Region (Johor)	24,594	5.38	5,427	2.30
East Malaysia (Sabah and Sarawak)	34	0.01	6	-*
	187,908	**41.10**	**36,711**	**15.53**
Total revenue (4 years average)	457,180		236,318	

\# Based on the total revenue of Prestar and Tashin Group (4 years average).

The Northern and Eastern Region are our core markets for sale of steel pipes. Based on the 4 years average, total sales of steel pipes to these regions were RM26.14 million or 11.06% of our total revenue (4 years average) whilst Prestar Group's core market is at the Central Region. Based on the 4 years average, total sales of steel pipes by Prestar Group to the Central Region were RM140.89 million or 30.81% of its total revenue (excluding revenue contributed by Tashin Steel and the revenue from POSCO-MKPC Sdn Bhd) (4 years average).

The Central Region and Southern Region are where our market share overlaps with the Prestar Group. However, the revenue from the sales of steel pipes to the Central and Southern Region based on the 4 years average were only RM5.14 million or 2.17% and RM5.43 million or 2.30% of our total revenue (4 years average) respectively. Such contribution to our total revenue is insignificant and in the event that we were to cease our sales of steel pipes to the Central and Southern region, our revenue is not expected to be significantly affected.

Both Tashin and Prestar sells its steel pipes to all states within the peninsular Malaysia. Furthermore, the sales of steel pipes by Tashin has been increasing from RM24.94 million in FYE 2015 to RM49.41 million in FYE 2018. In view that neither Tashin nor Prestar limits its sales location, Prestar is considered as a competitor to Tashin in relation to the sales of steel pipes.

(iii) Manufacturing capabilities

(aa) Steel processing

Within the Prestar Group, steel sheets and slit coils are sold by POSCO-MKPC Sdn Bhd, a 30%-owned associate company of Prestar and Dai Dong, a wholly-owned subsidiary of Prestar.

While POSCO-MKPC Sdn Bhd has the same capability to manufacture steel sheets and slit coils as our Group, Prestar and its Directors do not have any management control and are not involved in the day-to-day operations of POSCO-MKPC Sdn Bhd.

Dai Dong is a trading company and does not have any manufacturing capabilities. As such, it is not able to provide any slitting and shearing services to customers.

(bb) Steel pipes

Both Prestar and our Group have similar machinery for the manufacture of steel pipes. However, Prestar is able to manufacture a wider specification of steel pipes as compared to our Group.

The sale of steel pipes with same specifications have accounted for RM113.33 million or 50.24% of the total steel pipes sold by the Prestar Group in FYE 2018; while the sale of steel pipes with same specifications have accounted for RM49.27 million or 99.72% of the total steel pipes sold by the Tashin Group in FYE 2018.

(iv) Major customers

Our top 5 major customers for FYE 2018 (which excludes sales to Dai Dong) are as follows:

		FYE 2018		
Rank	**Customers**	**RM'000**	**%**	**Products sold**
(1)	Industrial Quality Management Sdn Bhd	16,306	6.26	Slit coils and steel sheets
(2)	Top Links Venture Sdn Bhd	7,600	2.92	Slit coils and steel sheets
(3)	UMW Advancetech Sdn Bhd	5,727	2.20	Slit coils
(4)	Winzu Hardware Sdn Bhd	5,572	2.14	Steel sheets, steel pipes, expanded metals, flat bars and checkered plates
(5)	Steel Marketing Resources (Sole proprietor)	5,319	2.04	Slit coils, steel sheets and flat bars
		40,524	**15.56**	

Our top 5 major customers for FYE 2018 contributes RM40.52 million or 15.56% of our total revenue and the products sold are slit coils and steel sheets.

The top 5 major customers for FYE 2018 for Prestar are as follows:

		FYE 2018		
Rank	**Customers**	**RM'000**	**%**	**Products sold**
(1)	Kimman Hardware Sdn Bhd	19,143	3.75	Steel pipes
(2)	Winzu Hardware Sdn Bhd	18,786	3.68	Steel pipes
(3)	Chua Tong Hin Hardware Sdn Bhd	17,903	3.51	Steel pipes
(4)	Eng Heng Huat Hardware Sdn Bhd	12,723	2.50	Steel pipes
(5)	TWT Hardware Sdn Bhd	10,637	2.09	Steel pipes
		79,192	**15.53**	

The top 5 major customers of Prestar for FYE 2018 contribute RM79.19 million or 15.53% of its total revenue (excluding revenue from Tashin Group). The main product sold is steel pipes.

Based on the above, save for Winzu Hardware Sdn Bhd, there are no common major customers between our Group and the Prestar Group. As Winzu Hardware Sdn Bhd is a common major customer, there is an intra-group competition between our Group and the Prestar Group for the sale of steel pipes. Nevertheless, its total purchases constitutes less than 5% of the total sales of both our Group and the Prestar Group.

The total number of common customers between our Group and the Prestar Group is 107 for FYE 2018, which contributed RM93.66 million or 35.95% of our total revenue for FYE 2018.

(v) Business Independence

Subsequent to the Listing, Tashin shall continue to operate its business independently of Prestar in the following manner:

(a) Tashin shall continue with its core business in steel processing of steel sheets and slit coils;

(b) Tashin shall continue to rely on its own expertise and personnel in marketing its products;

(c) Tashin shall continue to source its raw materials using its own means and negotiate the pricing of raw materials independent of Prestar;

(d) Tashin shall continue to manufacture its products from its manufacturing facility located in Perai, Penang while the Prestar Group shall continue with its manufacturing operations based in Rawang, Selangor;

(e) the financial, operational and management function shall remain separate from Prestar and its Managing Director, Executive Director and key senior management reports to the Board of Tashin and their decision making will not be influenced by Prestar or its corporate representatives; and

(f) Tashin shall continue to rely on its own management and technical team for its operations including the purchase and sale of goods, management, management policy, financial support and manufacturing knowhow.

An overview of the key senior personnel and their functions within the Tashin Group is as follows:

Function within the Tashin Group		Key senior personnel
(i)	operations	Goo Kong Hua
(ii)	purchases and sales of goods	Tan Keng Hor and Ma Swi Teok
(iii)	management	Lim Choon Teik
(iv)	finance	Foong Kok Chuin

10. CONFLICT OF INTERESTS *(Cont'd)*

(vi) Undertaking by Prestar

To prevent any future conflict of interest between the business activities of Prestar and Tashin, Prestar has given its undertaking to the Board of Tashin, so long as:

(a) Tashin Holdings remains listed on Bursa Securities; and

(b) Prestar remains a controlling shareholder (as defined in the Listing Requirements) in Tashin Holdings,

it will not venture into any competing business activities such as the processing of slit coils and steel sheets and any other competing business activities to be undertaken by Tashin Holdings, including the manufacturing of wire mesh.

(c) Dato' Toh Yew Peng

Dato' Toh Yew Peng, our Non-Independent Non-Executive Director, is also the Group Managing Director and major shareholder (via direct and indirect shareholdings) in Prestar, which is involved in the manufacture of various steel products. In addition, he is involved in the following companies as Director and/or shareholder:

			% of shareholdings	
Company	**Principal activities**	**Position held**	**Direct**	**Indirect**
Chiho Hardware Sdn Bhd	Trading of hardware and DIY household goods including wheelbarrows, racking systems, hand trucks, storage bin, pneumatic wheel, spare tube, stackable plastic container, bolt cutters, pliers, nippers, trowels, packing clips, screw drivers etc	Shareholder	11.66	-
SYKT Kwong Nam Hing Sdn Bhd	Trading of hardware and building materials including wheelbarrows, padlocks, pliers, hinges, bolt cutters and piston ring fitting etc	Director / Shareholder	2.32	-
Logam Indah Sdn Bhd	Trading of hardware including hand taps, hole saws, padlocks, pliers, hinges, bolt cutters and piston ring fitting etc	Director / Shareholder	0.0002	-

His involvements in Prestar and the abovementioned companies do not give rise to any conflict of interest or affect his responsibilities to our Group in view of the following:

(i) His involvement in the abovementioned companies will not influence his decision making in Tashin Holdings and affect his responsibilities in our Group as his role in Tashin Holdings is as a Non-Independent Non-Executive Director and as such does not contribute to the day-to-day management of our Group's operations;

(ii) His involvement in our Group is as a corporate representative of Prestar; and

(iii) These companies are involved in the retailing of hardware, building materials and DIY household goods while Tashin is involved in the distribution of steel products such as steel plates, steel pipes, round bars, angle bars and wire mesh to steel stockists, manufacturing, automotive, engineering, steel fabrication and construction companies.

(d) Toh Yew Seng

Toh Yew Seng, our Non-Independent Non-Executive Director, is also the Group Executive Director of Prestar, which is involved in the manufacture of various steel products. In addition, he is involved in the following company as a shareholder:

Company	Principal activities	Position held	% of shareholdings held
Chiho Hardware Sdn Bhd	Trading of hardware and DIY household goods including wheelbarrows, racking systems, hand trucks, storage bin, pneumatic wheel, spare tube, stackable plastic container, bolt cutters, pliers, nippers, trowels, packing clips, screw drivers etc	Shareholder	8.55

His involvements in Prestar and Chiho Hardware Sdn Bhd do not give rise to any conflict of interest or affect his responsibilities to Tashin Holdings in view of the following:

(i) His involvement in the abovementioned companies will not influence his decision making in Tashin Holdings and affect his responsibilities in our Group as his role in Tashin Holdings is as a Non-Independent Non-Executive Director and as such does not contribute to the day-to-day management of the Group's operations;

(ii) His involvement in our Group is as a corporate representative of Prestar; and

(iii) Chiho Hardware Sdn Bhd is involved in the retailing of hardware and DIY household goods while Tashin is involved in the distribution of steel products such as steel plates, steel pipes, round bars, angle bars and wire mesh to steel stockists, manufacturing, automotive, engineering, steel fabrication and construction companies.

(e) Koay Kah Ee

Koay Kah Ee, our Non-Independent Non-Executive Director, is also the Group Finance Director of Prestar, which is involved in the manufacture of various steel products.

Notwithstanding the above, his involvement in Prestar does not give rise to any conflict of interest or affect his responsibilities to Tashin Holdings in view of the following:

(i) His involvement in Prestar will not influence his decision making in Tashin Holdings and affect his responsibilities in our Group as his role in Tashin Holdings is as a Non-Independent Non-Executive Director and as such does not contribute to the day-to-day management of the Group's operations; and

(ii) His involvement in our Group is as a corporate representative of Prestar.

The roles of Dato' Toh Yew Peng, Toh Yew Seng and Koay Kah Ee in our Board as corporate representatives of Prestar include, overseeing and monitoring the conduct of the Group's businesses and financial performance and monitoring compliance with applicable accounting standards as well as applicable laws, regulations, rules, directives and guidelines.

10.1.1 DDWG's opinion

The DDWG reviewed the Directors' and major shareholder's involvement in similar business as our Group and is of the opinion that it does not give rise to any material conflict of interest situation based on the following:

(a) In relation to the Prestar Group:

(i) POSCO-MKPC Sdn Bhd is 30%-owned associate company of Prestar. Our Directors, Dato' Toh Yew Peng, Toh Yew Seng and Koay Kah Ee are not involved in the day-to-day operations of POSCO-MKPC Sdn Bhd and is not in the position to influence the decision making process of POSCO-MKPC Sdn Bhd. POSCO-MKPC Sdn Bhd is managed by a separate management team and is not dependent on Prestar.

(ii) Dai Dong does not compete directly with our Group in view that Dai Dong is a trading company and does not have any manufacturing capabilities. As such, it is not able to provide any slitting and shearing services to customers.

(iii) Prestar Precision Tube Sdn Bhd, a subsidiary of Prestar manufactures its steel pipes in Rawang, Selangor while the Tashin Group's steel pipes are manufactured in Perai, Penang.

The steel pipes manufactured by the Prestar Group are mainly sold to the Central Region with a concentration of 75.0% (4 years average) of the sales of steel pipes whilst steel pipes manufactured by our Group are mainly sold to the Northern and Eastern Region with a concentration of 71.2% (4 years average) of the sales of steel pipes. The sales concentration is dependent on the locality of the manufacturing facility primarily due to the delivery cost of the products to customers.

The Central Region and Southern Region are where our market share overlaps with the Prestar Group. However, the revenue from the sales of steel pipes to the Central and Southern Region based on the 4 years average were only RM5.14 million or 2.17% and RM5.43 million or 2.30% of our total revenue (4 years average) respectively. Such contribution to our total revenue is insignificant and in the event that we were to cease our sales of steel pipes to the Central and Southern region, our revenue is not expected to be significantly affected.

In view that sales concentration of the Tashin Group and the Prestar Group are of different regions, there is limited intra-group competition and conflict of interest between Prestar Group and Tashin Group's steel pipe manufacturing business which will have a significant impact on our Group's financial position.

In addition, the business strategy of Tashin is to expand into the manufacturing of wire mesh and to increase its capacity for steel processing. In view that Prestar does not have any steel processing capabilities (other than POSCO-MKPC Sdn Bhd in which Prestar does not have any management control), Prestar is not in the position to compete with Tashin's core business in steel processing. In relation to wire mesh, Prestar does not manufacture or sell any wire mesh and has no intention to venture into any wire mesh related business in the future.

We further note that Prestar had given its undertaking that it will not venture into any competing business activities such as the processing of slit coils and steel sheets and any other competing business activities to be undertaken by Tashin Holdings, including the manufacturing of wire mesh. Such undertaking will ensure that Prestar will not venture into any competing business activities in the future and will prevent any future conflict of interest between the business activities of Prestar and Tashin.

(b) In relation to other companies where our Directors are involved in:

(i) The core business of the companies in which our Directors are involved is different from the core business of our Group. As such, the business activities of these companies do not compete with our Group;

(ii) The role of Dato' Toh Yew Peng, Toh Yew Seng and Koay Kah Ee in our Board are as Non-Independent Non-Executive Directors and as corporate representatives of Prestar. They are not involved in the day-to-day management of our Group's operations and are not in the position to influence the financial, operational and management aspects of our Group.

The financial, operational and management functions are undertaken by our Managing Director, Executive Director and key senior management who report directly to the Board of Tashin and does not directly report to the corporate representatives of Prestar or the Board of Prestar; and

(iii) Our Audit Committee will review and deliberate on all transactions with companies related to our Directors and ensure that all transactions will be undertaken on arm's length basis.

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

DIn order to mitigate any possible conflict of interest situation, our Directors will declare to our Nomination 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 Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's business. When a determination has been made that there is a conflict of interest of a Director, our Nomination Committee will:

(aa) Immediately inform our Board of the conflict of interest situation;

(bb) Make recommendations to our Board to direct the conflicted Director to:

(i) Withdraw from all his 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); and

(ii) Abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

In relation to (bb) above, the conflicted Director shall abstain from any Board discussion relating to the recommendation of our Nomination 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.

10.2 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS

(a) M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Managing Underwriter, Joint Underwriter and Placement Agent for our Listing;

(b) Wong Beh & Toh 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) BDO 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;

(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;

(e) Malacca Securities Sdn Bhd 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 Joint Underwriter for our Listing; and

(f) JF Apex Securities Berhad 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 Joint Underwriter for our Listing.

11. FINANCIAL INFORMATION

11.1 HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Our Company was incorporated on 14 August 2017. Our audited combined financial statements throughout the FYEs 2015 to 2018 have been prepared in accordance with MFRS and IFRS.

11.1.1 Historical financial information

The following summary 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

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2015 to 2018:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	212,284	214,741	257,701	260,545
Cost of sales	(196,419)	(185,247)	(221,568)	(235,385)
GP	15,865	29,494	36,133	25,160
Other income	1,002	963	2,202	5,419
Selling and distribution expenses	(2,439)	(2,612)	(3,419)	(2,846)
Administrative expenses	(6,364)	(6,863)	(9,102)	(9,103)
Other operating expenses	(324)	(4,151)	(2,077)	(1,103)
Finance costs	(2,838)	(2,351)	(2,235)	(2,889)
Interest income	85	105	169	191
PBT	4,987	14,585	21,671	14,829
Tax expense	(827)	(2,401)	(5,956)	(3,548)
PAT	**4,160**	**12,184**	**15,715**	**11,281**
Other comprehensive income, net of tax				
- Revaluation surplus	-	-	21,393	-
Total comprehensive income	**4,160**	**12,184**	**37,108**	**11,281**
EBIT (1)	7,740	16,831	23,737	17,527
EBITDA (1)	10,319	19,487	26,941	21,197
GP margin (%)	7.47	13.73	14.02	9.66
PBT margin (%)	2.35	6.79	8.41	5.69
PAT margin (%)	1.96	5.67	6.10	4.33
Effective tax rate (%)	16.58	16.46	27.48	23.93
EPS (sen) (2)	1.44	4.21	5.43	3.89
Diluted EPS (sen) (3)	1.19	3.49	4.50	3.23

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	4,160	12,184	15,715	11,281
Less:				
Interest income	(85)	(105)	(169)	(191)
Add:				
Finance costs	2,838	2,351	2,235	2,889
Taxation	827	2,401	5,956	3,548
EBIT	**7,740**	**16,831**	**23,737**	**17,527**
Add:				
Depreciation and amortisation	2,579	2,656	3,204	3,670
EBITDA	**10,319**	**19,487**	**26,941**	**21,197**

(2) Calculated based on our PAT divided by the share capital of 289,662,000 Shares before our IPO.

(3) Calculated based on our PAT divided by the enlarged share capital of 348,991,000 Shares after our IPO.

(b) Historical combined statements of financial position

The following table sets out our historical combined statements of financial position as at 31 December 2015, 2016, 2017 and 2018:

	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	50,309	49,505	75,767	73,399
Investment property	4,600	-	-	-
Total non-current assets	**54,909**	**49,505**	**75,767**	**73,399**
Current assets				
Inventories	66,832	65,517	103,154	64,773
Derivative assets	19	7	-	-
Trade and other receivables	57,548	62,674	57,297	49,976
Current tax assets	61	-	-	-
Cash and bank balances	8,546	8,417	24,556	14,823
Total current assets	**133,006**	**136,615**	**185,007**	**129,572**
TOTAL ASSETS	**187,915**	**186,120**	**260,774**	**202,971**
EQUITY AND LIABILITIES				
Invested equity	20,000	20,000	20,000	20,000
Retained earnings	85,517	95,701	103,675	115,289
Revaluation reserve	-	-	21,134	20,494
Total equity	**105,517**	**115,701**	**144,809**	**155,783**

	Audited 2015	2016	2017	2018
	As at 31 December			
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Borrowings	3,174	1,445	270	61
Deferred tax liabilities	3,369	2,796	9,770	10,167
Total non-current liabilities	**6,543**	**4,241**	**10,040**	**10,228**
Current liabilities				
Trade and other payables	12,330	32,569	52,844	18,065
Borrowings	63,419	31,846	51,105	18,151
Derivative liabilities	-	-	33	126
Current tax liabilities	106	1,763	1,943	618
Total current liabilities	**75,855**	**66,178**	**105,925**	**36,960**
TOTAL LIABILITIES	**82,398**	**70,419**	**115,965**	**47,188**
TOTAL EQUITY AND LIABILITIES	**187,915**	**186,120**	**260,774**	**202,971**

(c) Historical audited combined statements of cash flows

The following table sets out our audited combined statements of cash flows for the FYEs 2015 to 2018:

	Audited FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
PBT	4,987	14,585	21,671	14,829
Adjustments for:				
Depreciation of property, plant and equipment	2,579	2,656	3,204	3,670
Fair value adjustment on derivative assets	60	12	40	93
(Gain)/Loss on disposal of property, plant and equipment	(107)	(42)	(23)	8
Impairment loss on trade receivables	-	680	535	26
Interest expense	2,838	2,351	2,235	2,889
Interest income	(85)	(105)	(169)	(191)
Inventories written down	652	810	-	1,525
Reversal of inventories written down	-	-	(253)	-
Reversal of impairment losses on property, plant and equipment	-	-	(8)	-
Reversal of impairment losses on trade receivables	(167)	-	-	(108)
Unrealised (gain)/loss on foreign exchange	(9)	12	7	(3)
Operating profit before changes in working capital changes	**10,748**	**20,959**	**27,239**	**22,738**
Changes in working capital:				
(Increase)/Decrease in inventories	(5,958)	505	(37,384)	36,856
(Increase)/Decrease in trade and other receivables	(9,584)	(6,799)	4,944	6,895

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Decrease/(Increase) in amounts owing by related companies	145	(70)	(109)	204
(Decrease)/Increase in amounts owing to related companies	(209)	(24)	~	21
(Decrease)/Increase in trade and other payables	(1,189)	14,436	26,102	(34,801)
Cash (used in)/ generated from operations	**(6,047)**	**29,007**	**20,792**	**31,913**
Tax paid	(492)	(1,256)	(5,649)	(4,476)
Tax refunded	369	-	92	-
Net cash (used in)/from operating activities	**(6,170)**	**27,751**	**15,235**	**27,437**
Cash flows from investing activities				
Repayments from corporate shareholder	600	1,050	-	-
Advance from/(Repayments to) related companies	-	5,827	(5,827)	-
Interest received	85	105	169	191
Proceeds from disposal of property, plant and equipment	340	80	137	124
Proceeds from disposal of investment property	-	4,600	-	-
Purchase of property, plant and equipment	(679)	(1,639)	(1,423)	(1,434)
Net cash from/(used in) investing activities	**346**	**10,023**	**(6,944)**	**(1,119)**
Cash flows from financing activities				
Repayments of hire purchase	(43)	(537)	(525)	(487)
Drawdown/(Repayment) of bankers' acceptances	14,390	(31,211)	20,022	(31,986)
Repayment of term loans	(2,201)	(1,804)	(1,414)	(689)
Interest paid	(2,838)	(2,351)	(2,235)	(2,889)
Dividends paid	(1,000)	(2,000)	(8,000)	-
Proceeds from issuance of shares	-	-	~	-
Net cash from/(used in) financing activities	**8,308**	**(37,903)**	**7,848**	**(36,051)**
Net increase/(decrease) in cash and cash equivalents	**2,484**	**(129)**	**16,139**	**(9,733)**
Cash and cash equivalents at the beginning of the financial year	6,062	8,546	8,417	24,556
Cash and cash equivalents at the end of the financial year	**8,546**	**8,417**	**24,556**	**14,823**

Note:

~ Negligible.

11.1.2 Pro forma consolidated statements of financial position

The following table sets out a summary of the pro forma consolidated statements of financial position of our Group to show the effects of the Acquisition of Tashin Steel, Public Issue and utilisation of IPO proceeds.

The pro forma consolidated statements of financial position is presented for illustrative purposes only and should be read in conjunction with the Reporting Accountants' report together with the notes and assumptions accompanying the Pro forma Consolidated Financial Information as set out in Section 13.

	Tashin Holdings	I	II	III
	As at 31 December 2018	After Acquisition of Tashin Steel	After I and Public Issue	After II and utilisation of IPO proceeds
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	-	73,399	73,399	98,649
Total non-current assets				
Current assets				
Inventories	-	64,773	64,773	64,773
Trade and other receivables	-	49,976	49,976	49,976
Cash and bank balances	*	14,823	49,234	22,123
Total current assets	*	**129,572**	**163,983**	**136,872**
TOTAL ASSETS	*	**202,971**	**237,382**	**235,521**
Equity attributable to owners of the Company				
Share capital	*	144,831	179,242	179,242
Merger reserve	-	(124,831)	(124,831)	(124,831)
Retained earnings	(166)	115,289	115,289	113,847
Revaluation reserve	-	20,494	20,494	20,494
Total equity	**(166)**	**155,783**	**190,194**	**188,752**
Borrowings		61	61	61
Deferred tax liabilities	-	10,167	10,167	10,167
Total non-current liabilities	**-**	**10,228**	**10,228**	**10,228**
Current liabilities				
Trade and other payables	166	18,065	18,065	17,646
Borrowings	-	18,151	18,151	18,151
Derivative liabilities	-	126	126	126
Current tax liabilities	-	618	618	618
Total current liabilities	**166**	**36,960**	**36,960**	**36,541**
TOTAL LIABILITIES	**166**	**47,188**	**47,188**	**46,769**
TOTAL EQUITY AND LIABILITIES	*	**202,971**	**237,382**	**235,521**
Number of Shares in issue ('000)	^	289,662	348,991	348,991
NA	(166)	155,783	190,194	188,752
NA per Share (RM)	(83)	0.54	0.55	0.54

	Tashin Holdings	I	II	III
	As at 31 December 2018	After Acquisition of Tashin Steel	After I and Public Issue	After II and utilisation of IPO proceeds
	RM'000	RM'000	RM'000	RM'000
Borrowings (All interest bearing debts)	-	18,212	18,212	18,212
Gearing (times)[(1)]	-	0.12	0.10	0.10
Current ratio (times) [(2)]	-	3.51	4.44	3.75

Notes:

* Representing RM2.00 only.

^ Representing 2 Shares only.

(1) Calculated based on the total borrowings (i.e. finance lease payables and bank borrowings) of our Group divided by the total equity of our Group.

(2) Calculated based on total current assets divided by total current liabilities of our Group.

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

The discussion of our business, financial condition and results of operations for the FYEs 2015 to 2018 refers to the historical audited combined financial information of Tashin Steel. Our audited financial statements have been prepared in accordance with MFRS and IFRS for the FYEs 2015 to 2018.

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

11.2.1 Overview of our operations

(a) Principal activities

Our Group is principally involved in the:

(i) Processing (ie, slitting and shearing) of steel coils into slit coils and steel sheets;

(ii) Manufacturing of steel products comprising, steel pipes, flat bars, square bars, expanded metals, checkered plates and C Purlins; and

(iii) Trading of steel products including steel plates, steel pipes, round bars, angle bars and wire mesh.

Please refer to Section 6 for our Group's detailed business overview.

Moving forward, we will continue to focus on our current principal activities. As part of our business strategies as set out in Section 6.18, we intend to implement the following:

(i) to acquire an industrial land to construct a new factory to expand our current production and progressively implement more automation in our manufacturing process;

(ii) to broaden our product offering to meet the requirements of our customers; and

(iii) to upgrade our existing steel processing line.

Please refer to Section 8 for the risk factors that may affect our revenue and financial performance.

(b) Revenue

Our Group's revenue for the financial years under review was derived from steel processing, steel manufacturing and trading of steel products.

Please refer to Section 6 for our Group's detailed business overview.

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

(c) Cost of sales

Our cost of sales mainly comprises raw materials, direct labour and factory overheads cost, details of which are as follows:

(i) Raw materials

Our Group's raw materials mainly consist of cold rolled steel coils, hot rolled steel coils, hot rolled pickled and oiled coils, hot dip galvanised steel coils, galvannealed steel coils, electro-galvanised steel coils and wire rods. Our trading segment's cost of sales is also included in our cost of raw materials. The price of our raw materials is affected by the global steel prices and the foreign exchange fluctuations.

Our raw materials are sourced from local and overseas steel manufacturers, selected based on the availability of raw material, the pricing and lead time for delivery. Whilst we have maintained long term business relationship with our existing suppliers, we also source for raw materials from new suppliers, if the need arises.

The percentage breakdown between raw materials sourced locally and overseas is as follows:

Source	**FYE 2015**	**FYE 2016**	**FYE 2017**	**FYE 2018**
	%	**%**	**%**	**%**
Local	66.78	68.82	66.82	44.21
Overseas	33.22	31.18	33.18	55.79*

Note:

* The increase in purchases from overseas suppliers was mainly due to increase in purchase from Baosteel Singapore Pte Ltd as the prices offered were more competitive.

(ii) Direct labour cost

Our direct labour cost comprises wages for workers which are employed directly by us. The direct labour cost is affected by the cost of foreign labour and changes in the Government's minimum wage policies.

(iii) Factory overheads

Our factory overheads comprise impairment on slow moving stocks, depreciation of machinery and equipment, utilities, consumables, repair and maintenance cost. The factory overheads cost is affected by the electricity tariffs, fuel prices and packing materials cost.

(d) Other income

Other income includes primarily sales of scrap which are residual materials left after being used in our operations, reversal of impairment loss on trade receivables, reversal of provision for import duty, and gain on disposal of property, plant and equipment (if any).

(e) Operating expenses and finance cost

Our operating expenses comprise expenses that are not directly allocated to cost of sales, including but not limited to marketing expenses, staff costs, directors' remuneration, depreciation of property, plant and equipment, bad debts written-off and impairment of trade receivables (if any).

Our finance costs comprise interest expense on borrowings.

(f) Recent developments

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

(g) Other matters

(i) We recorded negative operating cash flow during FYE 2015

The operating cash flow of our Group for the past 4 FYEs 2015 to 2018 is as follows:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Net cash (used in)/ from operating activities	(6,170)	27,751	15,235	27,437

In order to purchase raw materials, our Group has the following options:

(aa) purchase from local suppliers which offer credit terms of between 30 to 90 days; or

(bb) import raw materials from foreign suppliers utilising cash which are financed by bankers' acceptances.

During FYE 2015, our Group experienced negative operating cash flow of RM6.17 million mainly due to increase in the purchase of raw materials using cash (which was paid via bank borrowings) from both local and overseas suppliers as part of our restocking activities.

The overall negative cash flows were due to the fluctuation in the raw material prices. For FYE 2015, due to the reduction in raw material prices, we took this opportunity to restock our raw materials.

Notwithstanding the negative operating cash flow recorded in FYE 2015, we were able to remain profitable for FYE 2015. In addition, our cash position and current ratio remains healthy as follows:

	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	8,546	8,417	24,556	14,823
Total current assets	133,006	136,615	185,007	129,572
Total current liabilities	75,855	66,178	105,925	36,960
Current ratio (times)	1.75	2.06	1.75	3.51

(ii) Import Duty Investigation by the RMCD

On 3 June 2011, Tashin Steel entered into an agreement with Perusahaan Otomobil Nasional Sdn Bhd ("Proton") to partake in a Material Delivered Duty Unpaid Scheme ("DDU Scheme") wherein Tashin Steel was appointed to import raw materials for and on behalf of Proton. Under the DDU Scheme, import duties payable upon the importation of raw materials by Tashin Steel and other steel processors for and on behalf of Proton is exempted ("Proton's Exemption").

Tashin Steel was investigated by the RMCD in February 2016 for the alleged misuse of exemption granted to Proton pursuant to their participation in a DDU Scheme.

Pursuant to this investigation, the movement and usage of the raw materials and a few of the bank accounts of Tashin Steel were frozen in February 2016 and March 2016 respectively but the freeze was uplifted in June 2016 and April 2017 respectively.

In May 2016, 4 Bills of Demand were issued by RMCD to Proton and Tashin Steel for a total of RM3.66 million, of which RM0.45 million was been paid via the deduction of GST credit balance. In FYE 2017, a further RM0.35 million has been paid via the deduction of GST credit balance.

In July 2018, the Ministry of Finance ("MOF") agreed to waive RM2.36 million of the Bills of Demand issued to Tashin Steel, leaving a balance of RM1.30 million owing to RMCD. In October 2018, Tashin Steel filed for judicial review proceedings against the MOF and RMCD to challenge their decision on the duties levied.

In October 2018, Tashin Steel reached an understanding with Proton where Proton agreed to reimburse RM0.95 million of the remaining portion of the import duty, which is fully received as at the LPD.

In view of the above, Tashin Steel withdrew the judicial review.

A summary of the above is set out below:

Details	**RM' million**
Initial import duty imposed	3.66
Less: import duty waiver	(2.36)
Total import duty imposed	**1.30**
Paid via:	
(i) deduction of GST credit balance in FYE 2016	(0.45)
(ii) deduction of GST credit balance in FYE 2017	(0.35)
(iii) cash in FYE 2018	(0.50)
Total import duty paid	**1.30**

Based on the above, Tashin Steel paid a total import duty of RM1.30 million to RMCD, of which RM0.95 million was reimbursed by Proton in the form of cash payment of RM0.75 million and payment in kind of RM0.20 million in the form of Proton cars. The effective sum paid by Tashin was RM0.35 million.

Tashin believes that it has never breached any of the terms of Proton's Exemption. We decided to pay the import duty as a major portion was reimbursed by Proton and after taking into consideration the potentially lengthy judicial review proceedings and costly legal fees. We further wish to highlight the following:

(a) Proton is named as the owner/consignee of the imported steel coils in all customs declaration documentation.

(b) Tashin Steel merely acted as Proton's authorised agent providing services including warehousing, slitting and shearing facilities to Proton.

(c) All invoices were issued in Proton's name which is consistent with the terms and conditions of Proton's Exemption. The approved permits, customs declaration documents and steel millers' certificates are all issued under Proton's name as well.

(h) There were no exceptional or extraordinary items during the FYEs 2015 to 2018. Our audited financial statements for the FYEs 2015 to 2018 under review were not subject to any audit qualifications.

11.2.2 Review of operations

(a) Revenue

For the past 4 FYEs 2015 to 2018, 99% of our revenue is derived locally. The revenue segmentation of our Group by subsidiaries and by product segments for the past 4 FYEs 2015 to 2018, is set out below.

(i) Analysis of revenue by subsidiaries

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

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Tashin Steel	169,621	79.90	165,859	77.24	201,309	78.12	190,378	73.07
Tashin Hardware	42,663	20.10	48,882	22.76	56,392	21.88	70,167	26.93
	212,284	**100.00**	**214,741**	**100.00**	**257,701**	**100.00**	**260,545**	**100.00**

For the past 4 FYEs 2015 to 2018, Tashin Steel is the largest revenue contributor to our Group, which accounted for between 73.07% to 79.90% of our revenue for the financial years under review.

(ii) Revenue segmentation

The breakdown of our Group's revenue segmentation is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Steel processing								
- Flat products (1)	160,997	75.84	156,013	72.65	190,108	73.77	182,491	70.04
Steel manufacturing								
- Long products (2)	35,614	16.78	46,816	21.80	50,634	19.65	63,125	24.23
- Building materials (3)	9,457	4.45	7,655	3.57	10,480	4.07	13,507	5.18
Sub-total	45,071	21.23	54,471	25.37	61,114	23.72	76,632	29.41
Trading (4)	6,216	2.93	4,257	1.98	6,479	2.51	1,422	0.55
	212,284	**100.00**	**214,741**	**100.00**	**257,701**	**100.00**	**260,545**	**100.00**

The average selling price/MT for each of our product segments for the FYEs 2015 to 2018 is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	MT	RM/MT	MT	RM/MT	MT	RM/MT	MT	RM/MT
Steel processing								
- Flat products (1)	64,098	2,512	60,814	2,565	60,018	3,168	57,648	3,166
Steel manufacturing								
- Long products (2)	15,019	2,371	18,846	2,484	16,482	3,072	19,505	3,236
- Building materials (3)	3,721	2,542	2,968	2,579	3,519	2,978	4,433	3,047
Trading (4)	2,629	2,364	1,865	2,283	2,274	2,849	464	3,065

Notes:

(1) Slit coils and steel sheets.
(2) Steel pipes, flat and square bars.
(3) Expanded metals, checkered plates and C Purlins.
(4) Steel plates, steel pipes, round bars, angle bars and wire mesh.

Our revenue was mainly derived from steel processing of flat products which accounted for more than 70% of our revenue for each of the FYEs 2015 to 2018.

Revenue generated from steel manufacturing segment is the second largest which constituted between 21.23% to 29.41%, of which the revenue contribution from the manufacturing of long products was between 16.78% to 24.23% and the balance is generated from manufacturing of building materials. Trading of steel products contributed to between 0.55% to 2.93% of our revenue.

Steel processing of flat products recorded the highest in sales volume for the past 4 FYEs 2015 to 2018, ranging from 57,648 MT to 64,098 MT for the past 4 FYEs 2015 to 2018.

Steel manufacturing of long products recorded the second highest sales volume of between 15,019 MT to 19,505 MT for the past 4 FYEs 2015 to 2018.

(iii) Commentary on revenue

Comparison between FYE 2015 and FYE 2016

In the FYE 2016, we recorded a marginal increase in revenue of RM2.46 million or 1.16% from RM212.28 million in the FYE 2015 to RM214.74 million in the FYE 2016.

Steel processing

During FYE 2016, we recorded a decrease in revenue from our steel processing segment by RM4.99 million or 3.10%. This was due to the decrease in the sales volume for flat products from 64,098 MT in FYE 2015 to 60,814 MT in FYE 2016 as a result of lower demand from automotive industry in line with the decrease in total industry volume of car sold in Malaysia as stated in the IMR Report.

Notwithstanding the decrease in sales volume, we recorded an increase in average selling price from RM2,512/MT in FYE 2015 to RM2,565/MT in FYE 2016. The increase in average selling price was in line with the increase in the global steel coil price of 9.23% from 2015 to 2016 as stated in the IMR Report.

Steel manufacturing

Steel manufacturing segment recorded a further increase in sales from RM45.07 million in the FYE 2015 to RM54.47 million in the FYE 2016.

The average selling price for long products have improved from RM2,371/MT to RM2,484/MT which is in line with the increase in the global steel coil price. The sales volume for long products continued to improve from 15,019 MT in FYE 2015 to 18,846 MT in FYE 2016. The increase was mainly due to increase in sale of steel pipes to steel stockists resulting from the commissioning of 4 additional steel pipe lines. At the end of FYE 2014, we commissioned 4 additional steel pipe lines which increased our total production capacity for the manufacturing of steel pipes from 6,000 MT in FYE 2014 to 18,240 MT in FYE 2015. Between FYE 2015 and FYE 2016, we increased our marketing efforts for the sale of steel pipes. With this new steel pipes lines, we gradually increased our sales of steel pipes from 11,022 MT in FYE 2015 to 13,591 MT in FYE 2016.

However, the sales volume for building materials had recorded a decrease from 3,721 MT in FYE 2015 to 2,968 MT in FYE 2016 as a result of decrease demand in expanded metal from steel stockists.

Trading

In FYE 2016, we continue to record a further decrease in our trading revenue from RM6.22 million in FYE 2015 to RM4.26 million in FYE 2016 which was mainly due to the decrease in demand from steel stockists.

Comparison between FYE 2016 and FYE 2017

In FYE 2017, we recorded an increase in revenue of RM42.96 million or 20.01% from RM214.74 million in the FYE 2016 to RM257.70 million in the FYE 2017.

Steel processing

The steel processing segment recorded an increase of RM34.10 million or 21.86% from RM156.01 million in the FYE 2016 to RM190.11 million in the FYE 2017.

The increase was attributable to the increase in average selling price from RM2,565/MT in FYE 2016 to RM3,168/MT in FYE 2017. The increase in average selling price was in line with the increase in global steel coil prices of 22.48% from 2016 to 2017 as stated in the IMR Report. Notwithstanding the increase in average selling price, the total sales volume decreased marginally by 796 MT from 60,814 MT in FYE 2016 due to decrease in demand of slit coils and steel sheets from automotive and engineering customers.

Steel manufacturing

We recorded marginally higher revenue for steel manufacturing segment of RM6.64 million or 12.19% from RM54.47 million in the FYE 2016 to RM61.11 million in the FYE 2017 which was attributable to the increase in average selling price for both long products and building materials. We increased our selling price along with the continued increase in global steel coil prices for FYE 2017.

Due to the substantial increase in selling prices, the steel stockists had reduced their inventory holding for long products hence reducing the sales volume for long products. Despite the decrease in sales volume for long products, we recorded an overall increase in revenue for steel manufacturing segment.

Trading

The revenue from trading of steel products recorded an increase of RM2.22 million or 52.11% from RM4.26 million in the FYE 2016 to RM6.48 million in the FYE 2017 due to the increase in trading volume from 1,865 MT in FYE 2016 to 2,274 MT in FYE 2017 and increase in average selling prices from RM2,283/MT in FYE 2016 to RM2,849/MT in FYE 2017. In FYE 2017, we recorded increase in demand from steel stockists for our trading segment.

Comparison between FYE 2017 and FYE 2018

In FYE 2018, we recorded an increase in revenue of RM2.85 million or 1.11% from RM257.70 million in the FYE 2017 to RM260.55 million in the FYE 2018.

Steel processing

During FYE 2018, we recorded a decrease in revenue from our steel processing segment by RM7.62 million or 4.01%. This was due to the decrease in the sales volume for flat products from 60,018 MT in FYE 2017 to 57,648 MT in FYE 2018 as a result of reduction in sales to Dai Dong Steel Sdn Bhd, which is a wholly-owned subsidiary of Prestar. Additional information on our relationship with Dai Dong Steel Sdn Bhd is set out in Section 9.1(ii), note (3).

Steel manufacturing

We recorded higher revenue for steel manufacturing segment of RM15.52 million or 25.40% from RM61.11 million in the FYE 2017 to RM76.63 million in the FYE 2018 which was attributable to the increase in average selling price and volume for both long products and building materials. Our selling price increased in line with the continued increase in global steel coil prices for FYE 2018.

Trading

In FYE 2018, we recorded a decrease in our trading revenue from RM6.48 million in FYE 2017 to RM1.42 million in FYE 2018 as we focused on selling our core products in steel processing and steel manufacturing in 2018. Hence, the trading volume decreased from 2,274 MT in FYE 2017 to 464 MT in FYE 2018.

(b) Cost of sales, GP and GP margin

The key components of our cost of sales are raw materials, direct labour cost and factory overheads. The analysis of our cost of sales by cost items, by subsidiaries and by product segments for the past 4 FYEs 2015 to 2018 are explained below.

(i) Analysis of cost of sales by cost items

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

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials								
- Steel processing and manufacturing	177,023	90.12	167,895	90.63	201,513	90.95	217,244	92.29
- Trading	5,632	2.87	3,258	1.76	5,218	2.35	1,251	0.53
	182,655	92.99	171,153	92.39	206,731	93.30	218,495	92.82
Direct labour cost	4,192	2.14	4,398	2.38	5,210	2.35	5,436	2.31
Factory overheads	9,572	4.87	9,696	5.23	9,627	4.35	11,454	4.87
	196,419	**100.00**	**185,247**	**100.00**	**221,568**	**100.00**	**235,385**	**100.00**

Raw materials are the largest component in the cost of sales, consistently constituting more than 90% of our total cost of sales. The second largest component for the cost of sales is factory overheads which constitutes approximately 5% of our cost of sales.

(ii) Analysis of cost of sales by subsidiaries

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Tashin Steel	155,415	79.12	142,933	77.16	173,147	78.15	174,026	73.93
Tashin Hardware	41,004	20.88	42,314	22.84	48,421	21.85	61,359	26.07
	196,419	**100.00**	**185,247**	**100.00**	**221,568**	**100.00**	**235,385**	**100.00**

Our cost of sales was mainly recorded by Tashin Steel which corresponds with our revenue segmentation where Tashin Steel is the largest revenue contributor to our Group.

(iii) Analysis of cost of sales by product segments

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Steel processing								
Flat products	148,194	75.45	135,365	73.07	164,260	74.14	167,280	71.07
Steel manufacturing								
Long products	33,844	17.23	40,315	21.76	43,119	19.46	54,347	23.09
Building materials	8,749	4.45	6,309	3.41	8,971	4.05	12,507	5.31
Sub-total	42,593	21.68	46,624	25.17	52,090	23.51	66,854	28.40
Trading	5,632	2.87	3,258	1.76	5,218	2.35	1,251	0.53
	196,419	**100.00**	**185,247**	**100.00**	**221,568**	**100.00**	**235,385**	**100.00**

The average cost of sales/MT* for each of our product segments for the FYEs 2015 to 2018 is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	MT	RM/MT	MT	RM/MT	MT	RM/MT	MT	RM/MT
Steel processing								
- Flat products	64,098	2,312	60,814	2,226	60,018	2,737	57,648	2,902
Steel manufacturing								
- Long products	15,019	2,253	18,846	2,139	16,482	2,616	19,505	2,786
- Building materials	3,721	2,351	2,968	2,125	3,519	2,549	4,433	2,821
Trading	2,629	2,142	1,865	1,747	2,274	2,295	464	2,696

Note:

* The average cost of sales/MT is calculated based on the total cost of sales attributable to the product segment divided by the total sales volume.

Our cost of sales was mainly from the steel processing segment which corresponds with our revenue segmentation where steel processing segment is the largest revenue contributor to our Group. Overall, the cost of sales by the other segments corresponds with the respective revenue segmentations.

(iv) Analysis of GP and GP margin by segments and product group

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Steel processing								
Flat products	12,803	7.95	20,648	13.23	25,848	13.60	15,211	8.34
Steel manufacturing								
Long products	1,770	4.97	6,501	13.89	7,515	14.84	8,778	13.91
Building materials	708	7.49	1,346	17.58	1,509	14.40	1,000	7.40
Sub-total	2,478	5.50	7,847	14.41	9,024	14.77	9,778	12.76
Trading	584	9.40	999	23.47	1,261	19.46	171	12.03
	15,865	**7.47**	**29,494**	**13.73**	**36,133**	**14.02**	**25,160**	**9.66**

The GP/MT for each of our product segments for the FYEs 2015 to 2018 is as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	MT	GP/MT	MT	GP/MT	MT	GP/MT	MT	GP/MT
		RM		RM		RM		RM
Steel processing								
Flat products	64,098	200	60,814	339	60,018	431	57,648	264
Steel manufacturing								
Long products	15,019	118	18,846	345	16,482	456	19,505	450
Building materials	3,721	191	2,968	454	3,519	429	4,433	226
Trading	2,629	222	1,865	536	2,274	554	464	369

(v) Commentary on cost of sales, GP and GP margin

Comparison between FYE 2015 and FYE 2016

Notwithstanding the increase in our revenue by 1.16%, our cost of sales decreased by RM11.17 million, or 5.69%, from RM196.42 million for FYE 2015 to RM185.25 million for FYE 2016.

The decrease in cost of sales was mainly contributed by the decrease in raw materials costs by RM11.51 million or 6.30%. The decrease was however offset with marginal increase in direct labour cost by RM0.21 million or 5.01% and increase in factory overheads by RM0.12 million or 1.25%.

Our GP increased by RM13.62 million or 85.82%, from RM15.87 million for FYE 2015 to RM29.49 million for FYE 2016 and our overall GP margin increased by 6.26% from 7.47% for FYE 2015 to 13.73% for FYE 2016.

In FYE 2016, average cost of sales/MT for all segments fell as we had managed to secure our inventory in end FYE 2015 at a low price. The lower cost for raw material purchased had resulted in lower weighted average cost per unit to expense off in profit or loss when we sold the finished goods.

In FYE 2016, we recorded higher GP and GP margin due to the following:

(a) lower carrying cost of our inventory for steel processing and steel manufacturing segments as we had purchased our raw materials at lower prices before the significant increase in raw material prices in FYE 2016.

(b) the higher average selling price for steel processing and steel manufacturing segments due to the increase in market prices of finished products.

Comparison between FYE 2016 and FYE 2017

Our GP increased by RM6.64 million or 22.52%, from RM29.49 million for FYE 2016 to RM36.13 million for FYE 2017 as the increase in our revenue of 20.01% was higher than the increase in our cost of sales of 19.61% for the same period.

The increase in cost of sales was mainly contributed by the increase in raw materials costs by RM35.58 million or 20.79% and the increase in direct labour cost by RM0.81 million or 18.41%. The increase in direct labour cost was due to the average salary increment and bonus payment.

In FYE 2017, the average cost of sales/MT for all segments increased as we purchased raw materials at a higher price due to the increase in global steel coil prices throughout the FYE 2017. This resulted in higher weighted average cost per MT when our finished goods were sold.

Nevertheless, we were able to record a marginal increase in our GP margin by 0.29% from 13.73% for FYE 2016 to 14.02% in FYE 2017 as we had successfully secured higher selling prices due to the increase in market prices of finished products thereby effectively passing on the increase in raw material cost to our customers. We recorded an increase in GP margins for both steel processing segment and steel manufacturing segment for long products of 0.37% and 0.95% respectively.

The GP margin for steel manufacturing segment for building materials fell by 3.18% to 14.40%; while the GP margin for trading segment decreased to 19.46% in FYE 2017 from 23.47% in FYE 2016. This was due to the increase in the raw material prices was higher than the increase in selling price of finished goods for both segments.

Comparison between FYE 2017 and FYE 2018

Our GP decreased by RM10.97 million or 30.36%, from RM36.13 million for FYE 2017 to RM25.16 million for FYE 2018 as the increase in our revenue of 1.11% was lower than the increase in our cost of sales of 6.24% for the same period.

The increase in cost of sales was mainly contributed by the increase in raw materials costs by RM11.76 million or 5.69%, increase in direct labour cost by RM0.23 million or 4.41% and increase in factory overheads by RM1.83 million or 19.00%. The increase in factory overheads was due to impairment on slow moving stocks of RM1.53 million.

During FYE 2018, the global steel prices increased by 13.88% from 2017 to 2018. This resulted in a corresponding increase in the weighted average cost per MT. Whilst the average selling price of our products has increased, such increase was not enough to effect the increase in weighted average cost per MT when our finished goods were sold, which resulted in a decrease in our GP margin as we are only able to pass on a portion of the increase in cost to our customers.

Resulting from the above, our GP margin decreased by 4.36% from 14.02% for FYE 2017 to 9.66% in FYE 2018 and we recorded a decrease in GP margin for all product segments as the increase in selling prices of finished products was lower than the increase in raw material prices.

(c) Other income

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

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Reversal of provision/ reimbursement for import duty	-	-	-	-	354	16.08	3,116	57.50
Insurance claim	-	-	-	-	72	3.27	-	-
Realised foreign exchange gain	59	5.89	174	18.07	27	1.22	9	0.17
Unrealised foreign exchange gain	9	0.90	-	-	-	-	3	0.05
Gain on disposal of property, plant and equipment	107	10.68	42	4.36	23	1.04	-	-
Sales of scrap	612	61.08	545	56.59	1,407	63.90	2,085	38.48
Reversal of inventories written down	-	-	-	-	253	11.49	-	-
Reversal of impairment losses on trade receivables	168	16.76	-	-	-	-	108	1.99
Reversal of impairment losses on property, plant and equipment	-	-	-	-	66	3.00	-	-
Compensation from disposal of investment property	-	-	202	20.98	-	-	-	-
Miscellaneous income (1)	47	4.69	-	-	-	-	98	1.81
	1,002	**100.00**	**963**	**100.00**	**2,202**	**100.00**	**5,419**	**100.00**

Note:

(1) Including sale of construction material and scrap papers.

Comparison between FYE 2015 and FYE 2016

Our other income is mainly due to the sale of scrap, which are residual materials left after being used in our operations which accounted for 61.08% and 56.59% of other income for FYE 2015 and FYE 2016 respectively.

Other income decreased by RM0.04 million or 4.00%, from RM1.00 million for FYE 2015 to RM0.96 million for FYE 2016. The decrease was primarily due to:

(i) decrease by RM0.17 million in reversal of impairment loss on trade receivables as no reversal was recorded in FYE 2016;

(ii) decrease by RM0.05 million in miscellaneous income as no miscellaneous income was recorded in FYE 2016;

(iii) decrease by RM0.06 million in the disposal of motor vehicles and machinery; and

(iv) decrease by RM0.07 million in sale of scrap.

The decrease was partially offset by the increase in realised foreign exchange gain of RM0.12 million.

On 11 August 2011, we had entered into a sales and purchase agreement to purchase an investment residential land from PDC Properties Sdn Bhd ("PDC") held under Lot 2634, HS(D) 15736, Mukim 13 Daerah Timur Laut, Penang. At the point of purchase, PDC represented that the said land is sea facing. However, at a later date, we discovered that there is an approved plan for land reclamation which will result in the said land being no longer sea facing and as such we initiated legal action against PDC. In FYE 2016, we entered into an out of court settlement with PDC and recorded a compensation sum of RM0.20 million from PDC.

Comparison between FYE 2016 and FYE 2017

During FYE 2017, the main component of other income is sale of scrap, representing 63.90% of other income. Other income increased by RM1.24 million or 129.17%, from RM0.96 million for FYE 2016 to RM2.20 million for FYE 2017. Such increase was due to:

(i) increase of RM0.86 million in sale of scrap;

(ii) reversal of provision for import duty of RM0.35 million resulting from the investigation by the RMCD in relation to the import duties payable. The RMCD had offset the sum of RM0.35 million from GST credit balance of our Company and hence, the amount of RM0.35 million was reduced in the provision for import duty; and

(iii) during FYE 2017, we disposed slow moving inventory which were previously impaired as it has been held in inventory for more than 1 year. In view that we had sold it at above its written down carrying value, we recorded a gain of RM0.25 million.

Comparison between FYE 2017 and FYE 2018

During FYE 2018, the other income increased by RM3.22 million from RM2.20 million for FYE 2017 to RM5.42 million for FYE 2018, due to:

(i) reversal of provision for import duty of RM2.36 million resulting from the waiver in the Bills of Demand by MOF and reimbursement for import duty of RM0.75 million* respectively;

(ii) increase of RM0.68 million in sale of scrap; and

(iii) reversal of impairment loss on trade receivables of RM0.11 million.

Note:

* The total reimbursement by Proton was RM0.95 million, of which RM0.75 million of the reimbursement sum was received on 18 December 2018 while remaining RM0.20 million was received on 25 February 2019.

(d) Operating expenses and finance costs

Operating expenses consist of selling and distribution expenses, administrative expenses and other operating expenses such as impairment loss on trade receivables, professional fees and provision for import duty.

11. FINANCIAL INFORMATION *(Cont'd)*

The breakdown of our operating expenses and finance costs for the FYEs 2015 to 2018, are as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Selling and distribution expenses	2,439	20.38	2,612	16.35	3,419	20.31	2,846	17.85
Administrative expenses	6,364	53.19	6,863	42.96	9,102	54.07	9,103	57.11
Other operating expenses	324	2.71	4,151	25.98	2,077	12.34	1,103	6.92
Finance cost	2,838	23.72	2,351	14.71	2,235	13.28	2,889	18.12
	11,965	**100.00**	**15,977**	**100.00**	**16,833**	**100.00**	**15,941**	**100.00**

Further details of our operating expenses are elaborated below:

(i) Selling and distribution expenses

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

The breakdown of the selling and distribution expenses is shown below:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Accommodation	148	6.07	137	5.25	138	4.04	139	4.88
Marketing expenses	215	8.82	179	6.85	198	5.79	217	7.63
Petrol, parking and toll	163	6.68	170	6.51	201	5.88	169	5.94
Staff costs(1)	1,643	67.36	1,852	70.90	2,633	77.01	2,039	71.64
Others (2)	270	11.07	274	10.49	249	7.28	282	9.91
	2,439	**100.00**	**2,612**	**100.00**	**3,419**	**100.00**	**2,846**	**100.00**

Notes:

(1) Including salaries, allowances and incentive for marketing personnel.

(2) Including travelling expenses, upkeep of motor vehicles and telephone expenses.

The majority of our selling and distribution expenses is staff costs, constituting between 67.36% to 77.01% of the selling and distribution cost. For the past 3 FYEs 2015 to 2017, our selling and distribution expenses have been increasing in line with the increase in our revenue. In FYE 2017, the staff cost increased from RM1.85 million in FYE 2017 to RM2.63 million due to increase in Directors' fees in Tashin Hardware.

In FYE 2018, we recorded a decrease in selling and distribution expenses from RM3.42 million in FYE 2017 to RM2.85 million. This was mainly due to a decrease in staff cost from RM2.63 million in FYE 2017 to RM2.04 million in FYE 2018 as we did not pay any Directors' fees for Tashin Hardware.

(ii) Administrative expenses

Administrative expenses comprise overheads incurred to maintain the overall operations for our Group. The key cost components include staff costs, depreciation cost, insurance cost and cost for the upkeep of office equipment.

The breakdown of the administrative expenses is shown below:

	Audited							
	FYE 2015		**FYE 2016**		**FYE 2017**		**FYE 2018**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Bank charges	177	2.78	176	2.57	293	3.22	224	2.46
Company trip	-	-	-	-	160	1.76	-	-
Donation	5	0.08	70	1.02	353	3.88	265	2.91
Depreciation cost	998	15.68	964	14.05	1,463	16.07	1,878	20.63
Insurance cost	393	6.17	350	5.10	435	4.78	534	5.87
Staff costs	2,742	43.09	3,157	46.00	3,999	43.94	4,013	44.09
Upkeep of furniture, fittings and office equipment, and motor vehicle	289	4.54	372	5.42	414	4.55	385	4.23
Forwarding and handling charges	296	4.65	223	3.25	159	1.75	148	1.62
Assessment and quit rent	185	2.91	189	2.75	183	2.01	177	1.94
Travelling expenses [(1)]	663	10.42	622	9.06	752	8.26	753	8.27
Office supplies and expenses [(2)]	122	1.92	140	2.04	157	1.72	192	2.11
Entertainment cost	135	2.12	214	3.12	213	2.34	170	1.87
Security cost	98	1.54	106	1.54	117	1.28	100	1.10
Government charges	53	0.83	42	0.61	172	1.89	23	0.25
Others [(3)]	208	3.27	238	3.47	232	2.55	241	2.65
	6,364	**100.00**	**6,863**	**100.00**	**9,102**	**100.00**	**9,103**	**100.00**

Notes:

(1) Including petrol, diesel, parking, toll, hostel rental, travelling allowance.

(2) Including printing, stationery, telephone, facsimile, mobile phone expenses.

(3) Including road tax, lorry inspection charges, office cleaning cost etc, that accounts for less than 5% of the administrative expenses.

For the past 4 FYEs 2015 to 2018, our administrative expenses have been increasing in line with the increase in our revenue. The majority of our administrative expenses is staff costs, constituting between 43.09% to 46.00% of the administrative expenses and had increased from RM2.74 million to RM4.01 million attributable to the bonus and increments to reward the staffs for their contribution in line with the increase in our revenue.

The second major administrative cost is depreciation cost, which constitutes between 14.05% to 20.63% of our administrative cost. Depreciation cost had increased from RM0.96 million in FYE 2016 to RM1.88 million in FYE 2018 which corresponds to the increase of our property, plant and equipment from RM49.50 million in FYE 2016 to RM73.40 million in FYE 2018.

In FYE 2017, we had recorded a donation expense of RM0.35 million mainly due to donations of RM0.31 million to the Penang Chinese Chamber of Commerce Charity Fund*. The remaining donations were made to schools and for flood assistance.

In FYE 2018, we made a donation of RM0.27 million, of which RM0.26 million was donated to the Penang Chinese Town Hall* and the remaining donation was made to schools.

Note:

* We wish to highlight that Lim Choon Teik, our Managing Director, was a General Committee Member of the Penang Chinese Chamber of Commerce until September 2018 and is currently a member of the Penang Chinese Town Hall.

(iii) Other operating expenses

Other operating expenses relate to expenses incurred which are not directly related to operating activities. The key components comprise impairment loss on trade receivables, impairment loss on investment property and professional fees.

The breakdown of the other operating expenses is shown below:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Impairment loss on trade receivables	-	-	680	16.38	535	25.76	26	2.36
Audit fees	34	10.50	36	0.87	40	1.93	44	3.99
Professional fees	152	46.91	115	2.77	1,298	62.49	854	77.43
Provision for import duty	-	-	3,210	77.33	-	-	-	-
Unrealised foreign exchange loss	-	-	12	0.29	7	0.34	-	-
Bank commitment fee	72	22.22	78	1.87	78	3.75	53	4.80
Fair value adjustment on derivative assets [(1)]	61	18.83	12	0.29	40	1.93	93	8.43
Impairment of property, plant and equipment	5	1.54	4	0.10	5	0.24	-	-
Others [(2)]	-	-	4	0.10	74	3.56	33	2.99
	324	**100.00**	**4,151**	**100.00**	**2,077**	**100.00**	**1,103**	**100.00**

Notes:

(1) The derivative assets comprise forward currency contracts entered into to hedge purchases denominated in USD. Further details on the fair value adjustments to derivative assets are set out in Note 8 of the Accountants' Report in Section 12 of this Prospectus.

(2) Including amongst others, secretarial fees and state consent fees.

For FYE 2016, other operating expenses increased by RM3.83 million from RM0.32 million for FYE 2015 to RM4.15 million for FYE 2016 mainly due to the one-off provision for import duty amounting to RM3.21 million. Additional information on the import duty imposed is set out in Section 11.2.1(g)(ii).

For FYE 2017, other operating expenses decreased by RM2.07 million from RM4.15 million for FYE 2016 to RM2.08 million for FYE 2017 mainly due to the one-off provision for import duty amounting to RM3.21 million recorded in FYE 2016. The decrease in other operating expenses was offset by the increase in professional fees of RM1.11 million incurred for the Listing.

For FYE 2018, other operating expenses decreased by RM0.98 million from RM2.08 million for FYE 2017 to RM1.10 million for FYE 2018 mainly due to decrease in trade receivable impairment loss and professional fees. The trade receivable impairment loss was lower as the collection for overdue trade receivables improved in FYE 2018. In FYE 2018, we incurred lower professional fees of RM0.65 million for the Listing as compared to RM1.11 million in FYE 2017.

(iv) Finance cost

Finance costs consist of interest on bankers' acceptance, revolving credit, term loan and hire purchases, which are utilised in the normal course of operations.

The breakdown of the finance costs is shown below:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bankers' acceptance	2,523	88.90	2,084	88.64	2,105	94.18	2,731	94.53
Revolving credit	35	1.23	26	1.11	-	-	112	3.88
Term loan	276	9.73	162	6.89	81	3.63	25	0.86
Hire purchases	4	0.14	79	3.36	49	2.19	21	0.73
	2,838	**100.00**	**2,351**	**100.00**	**2,235**	**100.00**	**2,889**	**100.00**

We utilise bankers' acceptance and revolving credit to finance our working capital, which includes stocks and trade receivables; while term loan is utilised for the construction of factory building and purchase of machinery; and hire purchase financing is utilised for the purchase of motor vehicle and a new slitting line in January 2016.

Our finance cost for the past 4 FYEs 2015 to 2018 ranges from RM2.24 million to RM2.89 million.

(v) Commentary on operating expenses and finance costs

Comparison between FYE 2015 and FYE 2016

In the FYE 2016, we recorded an increase in operating expenses and finance costs of RM4.01 million or 33.50% from RM11.97 million in the FYE 2015 to RM15.98 million in the FYE 2016. The increase was primarily attributable to the increase of RM3.83 million in the other operating expenses due to the one-off provision for import duty amounting to RM3.21 million.

In 2016, Tashin Steel was investigated by the RMCD in relation to the import duties payable for the importation of raw materials on behalf of Proton. RMCD had on 24 May 2016 issued 4 bills of demand for a total of RM3.66 million, of which RM0.45 million has been deemed paid as the RMCD had offset this amount against GST credit balance of our Company with RMCD. Hence, the Company recorded a provision for import duty amounting to RM3.21 million in FYE 2016.

Additional information on the import duty imposed is set out in Section 11.2.1(g)(ii).

Comparison between FYE 2016 and FYE 2017

In the FYE 2017, we recorded an increase in operating expenses and finance costs of RM0.85 million or 5.32% from RM15.98 million in the FYE 2016 to RM16.83 million in the FYE 2017. The increase was attributable to increase of RM0.81 million in selling and distribution expenses and increase of RM2.24 million in administrative expenses.

The increase was partially offset by decrease of RM2.07 million in other operating expenses and the decrease of RM0.11 million in finance cost as outstanding amounts for term loan and hire purchases have reduced for the FYE 2017.

Comparison between FYE 2017 and FYE 2018

In the FYE 2018, we recorded a decrease in operating expenses and finance costs of RM0.89 million or 5.29% from RM16.83 million in the FYE 2017 to RM15.94 million in the FYE 2018. The decrease was attributable to decrease of RM0.57 million and RM0.98 million in selling and distribution expenses and other operating expenses respectively.

The decrease was partially offset by increase of RM0.65 million in finance cost as we utilise more bankers' acceptance and revolving credit to finance the purchase of raw material.

(e) PBT and PBT margin

The analysis of our PBT and PBT margins for the FYEs 2015 to 2018 is explained in the subsections below.

(i) Analysis of PBT and PBT margin

The breakdown of PBT and PBT margin for the 4 FYEs 2015 to 2018, are as follows:

	Audited							
	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	RM'000	PBT margin %	RM'000	PBT margin %	RM'000	PBT margin %	RM'000	PBT margin %
Tashin Holdings	-	-	-	-	(22)	*	(144)	*
Tashin Steel	4,870	2.87	10,036	6.05	16,759	8.33	8,250	4.33
Tashin Hardware	117	0.27	4,549	9.31	4,934	8.75	6,723	9.58
	4,987	**2.35**	**14,585**	**6.79**	**21,671**	**8.41**	**14,829**	**5.69**

Note:

* Negligible.

(ii) Commentaries on PBT and PBT margin

Comparison between FYE 2015 and FYE 2016

We recorded an increase in PBT of RM9.60 million or 192.38% during FYE 2016. Such increase was mainly due to higher GP of RM29.49 million (FYE 2015: RM15.87 million) and GP margin of 13.73% recorded in FYE 2016 (FYE 2015: 7.47%). As a result of the improvement in our overall GP margin for FYE 2016, we also recorded a higher PBT margin of 6.79% in FYE 2016 compared to 2.35% in the preceding financial year.

Comparison between FYE 2016 and FYE 2017

We recorded an increase in PBT of RM7.09 million or 48.58% during FYE 2017. Such increase was mainly due to higher GP of RM36.13 million (FYE 2016: RM29.49 million) and GP margin of 14.02% recorded in FYE 2017 (FYE 2016: 13.73%). As a result of the improvement in our GP margin for FYE 2017 for the steel processing and steel manufacturing segments for long products, we also recorded a higher PBT margin of 8.41% in FYE 2017 compared to 6.79% in the preceding financial year.

Comparison between FYE 2017 and FYE 2018

We recorded a decrease in PBT of RM6.84 million or 31.56% during FYE 2018. Such decrease was mainly due to lower GP of RM25.16 million (FYE 2017: RM36.13 million) and GP margin of 9.66% recorded in FYE 2018 (FYE 2017: 14.02%).

(f) Taxation

Our taxation and effective tax rate for the 4 FYEs 2015 to 2018, are as follows:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Taxation	827	2,401	5,956	3,548
Effective tax rate (%)	16.58	16.46	27.48	23.93
Statutory tax rate (%)	25.00	24.00	24.00	24.00

Save for FYE 2017 our effective tax rate for FYE 2015 and FYE 2016 was lower than the statutory tax rate for the respective financial years. This was mainly due to the tax savings by our subsidiaries from reinvestment allowance utilised of RM2.28 million for FYE 2015 and RM5.53 million for FYE 2016. There are no other tax incentives applicable to our Group.

Resulting from the full utilisation of the capital reinvestment allowance, our Group did not benefit from any capital reinvestment allowance in the FYE 2017. Our effective tax rate of FYE 2017 was 27.48%, which was higher than the statutory tax rate for the respective financial years. The reason was due to disallowed tax expenses for deduction, such as marketing expenses amounting to RM0.02 million, annual company trip amounting to RM0.10 million, entertainment expenses amounting to RM0.17 million and professional fees for the IPO amounting to RM1.11 million. These fees were not tax deductible in prior financial years as well.

Our effective tax rate for FYE 2018 was 23.93% which is in line with the statutory tax rate for the year of 24.0%. During FYE 2018, our effective tax rate decreased from 27.48% in FYE 2017 to 23.93% as we recorded lower disallowed tax expenses of RM1.44 million as compared to FYE 2017 and overprovision of tax in the FYE 2017 of RM0.20 million.

11.2.3 Review of financial position

(a) Assets

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

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	50,309	49,505	75,767	73,399
Investment property	4,600	-	-	-
Total non-current assets	**54,909**	**49,505**	**75,767**	**73,399**
Current assets				
Inventories	66,832	65,517	103,154	64,773
Derivative assets	19	7	-	-
Trade and other receivables	57,548	62,674	57,297	49,976
Current tax assets	61	-	-	-
Cash and bank balances	8,546	8,417	24,556	14,823
Total current assets	**133,006**	**136,615**	**185,007**	**129,572**
TOTAL ASSETS	**187,915**	**186,120**	**260,774**	**202,971**

Comparison between FYE 2015 and FYE 2016

Non-current assets

Our non-current assets decreased by RM5.40 million or 9.83% due to:

(i) decrease in property, plant and equipment of RM0.80 million resulting from depreciation charges during the year; and

(ii) sale of a vacant residential land in Penang amounting to RM4.60 million. During FYE 2016, we had disposed a vacant residential land in Penang for RM4.6 million. The said land was acquired in 2011 for investment purposes.

Current assets

Our current assets increased by RM3.61 million in FYE 2016 mainly due to increase of RM6.30 million in trade receivables as a result of the increase in our revenue in FYE 2016. The increase in current assets was partially offset by the decrease in inventories of RM1.31 million.

Comparison between FYE 2016 and FYE 2017

Non-current assets

Our non-current assets increased by RM26.26 million or 53.04% mainly due to the revaluation surplus of RM21.39 million resulting from revaluation of our land and buildings. Additional information on our land and building is set out in Section 6.16.

Current assets

Our current assets increased by RM48.39 million or 35.42% in FYE 2017 from RM136.62 million in FYE 2016 to RM185.01 million, due to:

(i) increase of RM37.64 million in inventories to cater for increasing orders; and

(ii) increase of RM16.14 million in cash and bank balances due to higher internally generated funds contributed by higher sales in the FYE 2017.

Comparison between FYE 2017 and FYE 2018

Non-current assets

Our non-current assets decreased by RM2.37 million or 3.13% due to:

(i) decrease in property, plant and equipment of RM2.24 million resulting from depreciation charges during the year; and

(ii) disposal of a motor vehicle of RM0.13 million.

Current assets

Our current assets decreased by RM55.44 million or 29.97% in FYE 2018 from RM185.01 million in FYE 2017 to RM129.57 million, due to:

(i) decrease of RM38.38 million in inventories resulting from reduction of inventory in anticipation of a slowdown in the construction industry; and

(ii) decrease of RM9.73 million in cash and bank balances as we utilise cash for the repayment of bankers' acceptance.

(b) Liabilities

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

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current liabilities				
Borrowings	3,174	1,445	270	61
Deferred tax liabilities	3,369	2,796	9,770	10,167
Total non-current liabilities	**6,543**	**4,241**	**10,040**	**10,228**
Current liabilities				
Trade and other payables	12,330	32,569	52,844	18,065
Borrowings	63,419	31,846	51,105	18,151
Derivative liabilities	-	-	33	126
Current tax liabilities	106	1,763	1,943	618
Total current liabilities	**75,855**	**66,178**	**105,925**	**36,960**
TOTAL LIABILITIES	**82,398**	**70,419**	**115,965**	**47,188**

Comparison between FYE 2015 and FYE 2016

Non-current liabilities

Our non-current liabilities decreased by RM2.30 million in FYE 2016 mainly due to:

(i) decrease in borrowings of RM1.72 million as there is no new long term loan and hire purchase drawn down during FYE 2016 and reclassification of loans and hire purchase with a maturity of less than 1 year to current liabilities; and

(ii) decrease in deferred tax liabilities amounting to RM0.57 million.

Current liabilities

Our current liabilities decreased by RM9.68 million in FYE 2016 mainly due to the decrease in borrowings by RM31.57 million after repayment of bankers' acceptance amounting to RM31.21 million.

The decrease in current liabilities was offset by the increase in trade payables amounting to RM13.08 million.

Our Group had in FYE 2016 increased our purchase of raw materials from local supplier on credit terms instead of cash terms in order to normalise our cash flow which resulted in a positive operating cash flow in FYE 2016. In FYE 2016, our borrowings decreased by RM31.57 million while our trade payables increased by RM13.08 million.

Comparison between FYE 2016 and FYE 2017

Non-current liabilities

Our non-current liabilities increased by RM5.80 million in FYE 2017 mainly due to increase in deferred tax liabilities amounting to RM6.97 million attributable to the gain from revaluation of our land and buildings.

The increase was partially offset by the decrease in borrowings amounting to RM1.18 million as there is no new long term loan and hire purchase drawn down during FYE 2017 and reclassification of loans and hire purchase with a maturity of less than 1 year to current liabilities.

Current liabilities

Our current liabilities increased by RM39.75 million in FYE 2017 mainly due to:

(i) increase in trade payables of RM24.33 million mainly due to longer payment period for trade suppliers. During FYE 2017, our trade suppliers offered us longer credit period from 30 days to 90 days as part of their marketing initiative;

(ii) increase in borrowings of RM19.26 million as we utilised more bankers' acceptance to finance the increase in purchases of raw materials; and

(iii) increase in current tax liabilities of RM0.18 million as a result of higher PBT recorded in FYE 2017.

Comparison between FYE 2017 and FYE 2018

Non-current liabilities

Our non-current liabilities increased by RM0.19 million in FYE 2018 mainly due to increase in deferred tax liabilities amounting to RM0.40 million.

The increase was partially offset by the decrease in borrowings amounting to RM0.21 million as there is no new long term loan and hire purchase drawn down during FYE 2018 and reclassification of loans and hire purchase with a maturity of less than 1 year to current liabilities.

Current liabilities

Our current liabilities decreased by RM68.97 million in FYE 2018 mainly due to the decrease in borrowings by RM32.95 million after repayment of bankers' acceptance amounting to RM31.99 million. The reduction in bankers' acceptance is due to our reduction of inventory in anticipation of a slowdown in the construction industry.

11.3 LIQUIDITY AND CAPITAL RESOURCES

11.3.1 Working capital

Our business requires a significant amount of working capital to finance the purchase of raw materials, payment of labour and factory overheads.

We have been financing our operations through existing cash and bank balances, cash generated from our operations and external sources of funds. Our external sources of funds mainly comprise term loans, bank overdrafts, trade facilities such as bankers' acceptance, revolving credit and hire purchase financing. As at 31 December 2018, we have:

(a) cash and bank balances of approximately RM14.82 million; and

(b) banking facilities (excluding finance lease) up to a limit of RM113.34 million, of which RM32.26 million has been drawn.

Notwithstanding the above, on 1 March 2016, 3 of Tashin Steel's bank accounts were frozen at the request of RMCD in relation to the import duty investigation as highlighted in Section 11.2.1(g)(ii). The accounts frozen include banking facilities for bankers' acceptance and bank overdrafts totalling RM59.80 million.

As a result, we had limited banking facilities for the purchase of raw materials from overseas suppliers. In order to continue to import raw materials from overseas suppliers, Prestar Engineering Sdn Bhd and Prestar Precision Tube Sdn Bhd had advanced RM5.83 million to Tashin Steel for the purchase of raw materials. As at the LPD, there is no outstanding amount due to related parties.

Based on the pro forma consolidated statements of financial position of our Group as at 31 December 2018 (after the Acquisition of Tashin Steel but before the Public Issue), our NA position stood at RM155.78 million and our gearing level is 0.12 times. Our NA position and gearing level after the Acquisition of Tashin Steel and Public Issue (and utilisation of proceeds) are RM188.75 million and 0.10 times respectively.

Our Board is confident that, after taking into account our gearing and cash flow position as well as the banking facilities currently available to our Group, our working capital will be sufficient for our existing and foreseeable requirements 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. Our Group has not encountered any major disputes with our debtors and our allowance for impairment loss in respect of our doubtful debts is low. Our finance personnel works 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 flows

(a) Cash flow summary

The following table sets out the summary of the audited combined statements of our cash flows for the FYEs 2015 to 2018:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash (used in) / from operating activities	(6,170)	27,751	15,235	27,437
Net cash from / (used in) investing activities	346	10,023	(6,944)	(1,119)
Net cash from / (used in) financing activities	8,308	(37,903)	7,848	(36,051)
Net change in cash and cash equivalents	**2,484**	**(129)**	**16,139**	**(9,733)**
Cash and cash equivalents at the beginning of the financial year	6,062	8,546	8,417	24,556
Cash and cash equivalents at the end of the financial year	**8,546**	**8,417**	**24,556**	**14,823**

(b) Commentary of cash flows

FYE 2015

Net cash used in operating activities

In FYE 2015, we recorded net operating cash outflow of RM6.17 million. We collected RM215.49 million from our customers. This was partially offset by cash paid amounting to RM219.81 million which were mainly for the following:

(i) Approximately RM191.86 million was paid to our trade suppliers mainly for the purchase of raw materials;

(ii) Approximately RM15.01 million was paid to other suppliers for the purchase of factory consumables, packing material and overheads, transport fee as well as general and administrative expenses; and

(iii) Approximately RM7.85 million was paid for employees' salaries and remuneration.

During FYE 2015, our Group experienced negative operating cash flow of RM6.17 million mainly due to increase in the purchase of raw materials using cash (which was paid via bank borrowings) from both local and overseas suppliers as part of our restocking activities.

Kindly refer to Section 11.2.1(g)(i) on further details of our net operating cash outflow recorded for FYE 2015.

Net cash from investing activities

In FYE 2015, we generated net investing cash flow of RM0.35 million which was mainly due to the repayment of advances from the Prestar Group amounting to RM0.60 million and proceeds from the disposal of plant and equipment amounting to RM0.34 million. The plant and equipment disposed include metal roofing machines as we ceased manufacturing of metal roofing sheets.

This was offset by the cash payment of RM0.68 million for the purchase of property, plant and equipment in the FYE 2015, which consist of the balance payment for the construction of an additional storage area at Plot 39 and for the purchase of 1 unit of slitting machine.

Net cash from financing activities

In FYE 2015, we generated net financing cash flow of RM8.31 million, which was due to the drawdown of bankers' acceptances amounting to RM149.70 million for payments to suppliers and drawdown of hire purchase amounting to RM1.46 million for the purchase of property, plant and equipment. The net cash from investing activities was partially offset by repayment of bankers' acceptances amounting to RM135.31 million, repayment of term loan amounting to RM2.20 million, dividend paid amounting to RM1.00 million and interest paid amounting to RM2.84 million.

FYE 2016

Net cash from operating activities

In FYE 2016, we generated net operating cash flow of RM27.75 million. We collected approximately RM220.87 million from our customers. This was partially offset by cash paid amounting to RM192.89 million which were mainly for the following:

(i) Approximately RM161.39 million was paid to our trade suppliers mainly for the purchase of raw materials; and

(ii) Approximately RM15.48 million was paid to other suppliers for the purchase of factory consumables, packing material and overheads, transport fee as well as general and administrative expenses; and

(iii) Approximately RM8.80 million was paid for employees' salaries and remuneration.

The net operating cash flow recorded in FYE 2016 of RM27.75 million was mainly due a reduction in cash paid of RM192.89 million in FYE 2016 as compared to RM219.81 million in FYE 2015 which was attributable to a reduction in total raw materials purchased from RM181.76 million in FYE 2015 to RM168.11 million in FYE 2016 as well as our purchase of raw materials from local supplier on credit terms instead of cash terms.

Net cash from investing activities

In the FYE 2016, the net cash flow from investing activities of RM10.02 million was due to the advances from the Prestar Group amounting to RM5.83 million and proceeds from the disposal of investment property amounting to RM4.60 million.

During FYE 2016, we had disposed a vacant residential land in Penang for RM4.6 million. The said land was acquired in 2011 for investment purposes.

Net cash used in financing activities

In FYE 2016, we recorded net cash outflow of RM37.90 million from financing activities which was mainly due to repayment of bankers' acceptances amounting to RM130.22 million, dividend paid amounting to RM2.00 million and interest paid amounting to RM2.35 million. This was partially offset by the drawdown of bankers' acceptance amounting to RM99.00 million.

FYE 2017

Net cash used in operating activities

In FYE 2017, our Group generated net operating cash flow of RM15.24 million. We collected approximately RM279.85 million from our customers. This was partially offset by cash paid amounting to RM264.61 million which were mainly for the following:

(i) Approximately RM225.74 million was paid to our trade suppliers mainly for the purchase of raw materials;

(ii) Approximately RM19.43 million was paid to other suppliers for the purchase of factory consumables, packing material and overheads, transport fee as well as general and administrative expenses; and

(iii) Approximately RM9.37 million was paid for employees' salaries and remuneration.

The net operating cash flow recorded in FYE 2017 of RM15.24 million was lower than net operating cash flow recorded in FYE 2016 of RM27.75 million, mainly attributable to the increase in purchases of raw materials at a higher price due to the increase in global steel coil prices throughout the FYE 2017. We increase our purchases as part of our restocking exercise in anticipation of higher sales volume in early 2018.

Net cash used in investing activities

In FYE 2017, we recorded net cash outflow of RM6.94 million from investing activities, which was mainly due to repayment to the Prestar Group amounting to RM5.83 million.

Net cash from financing activities

In FYE 2017, we generated net financing cash flow of RM7.85 million, which was due to drawdown of bankers' acceptances amounting to RM129.07 million. The net cash from financing activities was partially offset by repayment of bankers' acceptances amounting to RM109.05 million, dividend paid amounting to RM8.00 million (of which RM2.00 million was paid in respect of FYE 2016 and RM6.00 million was paid in respect of FYE 2017) and interest paid amounting of RM2.23 million.

FYE 2018

Net cash used in operating activities

In FYE 2018, our Group generated net operating cash flow of RM27.44 million. We collected approximately RM276.04 million from our customers. This was partially offset by cash paid amounting to RM248.60 million which were mainly for the following:

(i) Approximately RM211.66 million was paid to our trade suppliers mainly for the purchase of raw materials;

(ii) Approximately RM19.09 million was paid to other suppliers for the purchase of factory consumables, packing material and overheads, transport fee as well as general and administrative expenses; and

(iii) Approximately RM11.27 million was paid for employees' salaries and remuneration.

The net operating cash flow recorded in FYE 2018 of RM27.44 million was higher than net operating cash flow recorded in FYE 2017 of RM15.23 million, mainly attributable to the reduction in purchases of raw materials. We reduced the purchase of raw materials in anticipation of a slowdown in the construction industry.

Net cash used in investing activities

In FYE 2018, we recorded net cash outflow of RM1.12 million from investing activities, which was mainly due to purchase of materials of RM0.75 million used for the upkeep of our existing factories.

Net cash from financing activities

In FYE 2018, we recorded net financing cash outflow of RM36.05 million, which was mainly due to repayment of bankers' acceptance amounting to RM31.99 million and interest paid amounting of RM2.89 million.

11.4 BORROWINGS

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

Our total outstanding bank borrowings as at 31 December 2018 stood at RM18.21 million, details of which are set out below. All our bank borrowings are interest-bearing and denominated in RM.

	Purpose	Tenure	Interest rate	As at 31 December 2018
			% per annum	RM'000
Interest bearing short-term borrowings, payable within 1 year:				
Bankers' acceptance	Purchase of raw materials	120 to 150 days	4.44-5.15	17,943

	Purpose	Tenure	Interest rate	As at 31 December 2018
			% per annum	RM'000
Hire purchase	Purchase of motor vehicles and plant and equipment	5 years	6.26	53
Term loans	Construction of factory building and purchase of machinery	5 years	4.88-5.37	155
			Sub-total	**18,151**
Interest bearing long-term borrowings, payable after 1 year:				
Hire purchase	Purchase of motor vehicles and plant and equipment	5 years	6.26	61
			Total borrowings	**18,212**

Pro forma gearing (times)	
After Acquisition of Tashin Steel before the Public Issue[(1)]	0.12
After the Public Issue[(2)]	0.10

Notes:

(1) Computed based on our pro forma shareholders' funds of RM155.78 million in the pro forma consolidated statements of financial position after the Acquisition of Tashin Steel before the Public Issue.

(2) Computed based on our pro forma shareholders' funds of RM188.75 million in the pro forma consolidated statements of financial position after the Acquisition of Tashin Steel and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to improve from 0.12 times (before the Public Issue) to 0.10 times (after the Public Issue and utilisation of proceeds) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue.

Our bank borrowings carry the following interest rates for the FYEs 2015 to 2018:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	% per annum			
Floating rates				
Term loans	5.09-5.37	4.84-5.43	4.88-5.16	4.88-5.37
Bankers' acceptance	3.63-5.50	3.63-5.10	4.10-4.90	4.39-5.15
Revolving credit	4.48-5.12	5.13-5.17	-	4.30-4.55

Our finance lease liabilities carry the following interest rates for the FYEs 2015 to 2018:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	% per annum			
Fixed rates				
Hire purchase	4.73	4.73-6.26	4.73-6.26	4.73-6.26

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

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
		RM'000		
Bank borrowings				
Within the next 12 months	62,922	31,321	50,618	18,098
After the next 12 months	2,258	844	155	-
Hire Purchases				
Within the next 12 months	497	525	487	53
After the next 12 months	916	601	115	61

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the FYEs 2015 to 2018 and the subsequent financial period up to LPD.

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

On 1 March 2016, 3 of Tashin Steel's bank accounts were frozen at the request of RMCD in relation to the import duty investigation as highlighted in Section 11.2.1(g)(ii). The accounts frozen include banking facilities for bankers' acceptance and bank overdrafts totalling RM59.80 million. Apart from this, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders for the past 4 FYEs 2015 to 2018.

11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at the LPD, save for our bank borrowings as disclosed in Section 11.4 and the USD denominated forward contracts entered into as disclosed in Section 11.10.1, we do not utilise any other financial instruments. We do not maintain any foreign currency accounts in licensed banks.

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

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

11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY

11.6.1 Material capital commitments

As at the LPD, we do not have any material commitments.

11.6.2 Material litigation and contingent liability

(i) Material litigation

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

(ii) Contingent liability

Our Directors are not aware of any 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.

11.7 KEY FINANCIAL RATIOS

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

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
Trade receivable turnover period (days)[1]	86	97	81	72
Trade payable turnover period (days)[2]	15	27	53	45
Inventory turnover period (days)[3]	119	130	139	130
Current ratio (times)[4]	1.75	2.06	1.75	3.51
Gearing ratio (times)[5]	0.63	0.29	0.35	0.12

Notes:

(1) Computed based on the following:

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

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade receivables	46,321	53,943	60,236	55,176
Closing trade receivables	53,943	60,236	55,176	48,839
Revenue	212,284	214,741	257,701	260,545
Trade receivables turnover period (days)	86	97	81	72

(2) Computed based on the following:

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

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening trade payables	8,925	7,351	20,428	44,761
Closing trade payables	7,351	20,428	44,761	13,887
Cost of sales	196,419	185,247	221,568	235,385

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade payable turnover period (days)	15	27	53	45

(3) Computed based on the following:

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

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Opening inventory	61,526	66,832	66,517	103,154
Closing inventory	66,832	65,517	103,154	64,773
Cost of sales	196,419	185,247	221,568	235,385
Inventory turnover period (days)	119	130	139	130

(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.

11.7.1 Trade receivables turnover

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

	Within credit period	**Exceeding credit period**			
	Neither past due nor impaired	**1 to 30 days past due but not impaired**	**31 to 60 days past due but not impaired**	**More than 60 days past due but not impaired**	**Total**
Trade receivables (RM'000)	39,900	6,596	1,001	1,342	48,839
% of total trade receivables (%)	81.70	13.50	2.05	2.75	100.00
Subsequent collections up to the LPD (RM'000)	39,724	6,528	1,001	1,342	48,595
Trade receivables net of subsequent collections (RM'000)	176	68	-	-	244
% of trade receivables net of subsequent collections to trade receivables net of subsequent collections (%)	72.13	27.87	-	-	100
Trade receivables turnover period (Days)					72

The normal credit period granted by our Group in respect of our trade receivables is between 14 to 90 days from the date of invoice. We use ageing analysis to monitor the credit quality of our trade receivables.

The majority of the credit period granted to our customers is 90 days. As such, our trade receivables turnover period for the 4 FYEs 2015 to 2018 was between 72 to 97 days. Nevertheless, our trade receivables turnover period is within the industry range of between 40 days to 138 days. The industry range is derived from the range of trade receivables turnover of the key industry players listed in the IMR Report, based on the respective latest available financial reports.

The trade receivables turnover for FYE 2016 was 97 days, which was higher than the credit period granted as RM5.46 million which was due in end of December 2016 was only collected in January 2017 as the last day of 2016 falls on a weekend.

Our management also closely monitors the recoverability of our overdue trade receivables on a regular basis, and, when appropriate, provides for impairment of these trade receivables. As at 31 December 2018, our allowance for impairment loss stood at RM0.03 million.

Our Group has not encountered any major disputes with our debtors. We have made allowance for impairment loss in respect of our doubtful debts.

Our allowances for impairment loss 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**
Allowance for impairment loss	-	680	535	26

Trade receivables that are impaired are debts outstanding beyond its credit period and doubtful in its recoverability.

Impairment is made under the following circumstances:

(i) if trade receivables beyond its credit period but within 1 year after the date of invoice, our management shall review and provide allowance for impairment on a case by case basis;

(ii) if the trade receivable has been outstanding for more than 1 year after the date of invoice; or

(iii) if our management believes that the recoverability of the trade receivable is doubtful ie in the situation where our debtors have filed for bankruptcy or have ceased operations.

In FYE 2015, no allowance for impairment was provided for as there were no doubtful receivables outstanding for the FYE 2015.

In FYE 2016, we provided for RM0.68 million allowance for impairment debtors where our management was doubtful on the recoverability of 5 debtors, whereby 3 debtors have debts overdue for 6 months and doubtful in recoverability and 2 debtors have ceased operations and are undergoing liquidation. In FYE 2017, our allowance for impairment loss was reduced to RM0.53 million due to lower doubtful debts from 4 debtors, whereby 2 debtors have debts overdue for 6 months and doubtful in recoverability and 2 debtors (same debtor where provision was made in FYE 2016) have ceased operations and are undergoing liquidation. In FYE 2018, our allowance for impairment loss was reduced to RM0.03 million due to lower doubtful debts from 4 new debtors.

For the FYE 2015 to 2018, the trade receivables written off are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Trade receivables written off	18	-	475	11

11.7.2 Trade payables turnover

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

		Exceeding credit period			
	Within credit term	1 to 30 days past due	31 to 60 days past due	More than 60 days past due	Total
Trade payables (RM'000)	13,212	675	-	-	13,887
% of total trade payables (%)	95.14	4.86	-	-	100.00
Subsequent payments up to the LPD (RM'000)	13,212	675	-	-	13,887
Trade payables net of subsequent payments (RM'000)	-	-	-	-	-
% of trade payables net of subsequent payments to total trade payables net of subsequent payments (%)	-	-	-	-	-
Trade payables turnover period (Days)					45

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

For the past 4 financial years under review, the trade payables turnover period ranges around 15 days to 53 days, which is within the credit terms granted by our suppliers. In FYE 2017, the trade payables turnover period was higher at 53 days as we increased our purchase of raw materials from local suppliers on credit terms instead of via bank borrowings. As at the LPD, all outstanding trade payables as at 31 December 2018 have been paid.

11.7.3 Inventories

As at 31 December 2018, the inventories of our Group amounting to approximately RM64.77 million can be analysed as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	91 - 365 days	More than 1 year	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Inventories						
- Raw materials	12,884	8,922	3,990	14,291	6,872	46,959
- Finished goods	8,301	2,339	1,063	3,860	2,251	17,814
Inventories	**21,185**	**11,261**	**5,053**	**18,151**	**9,123**	**64,773**
Turnover period (Days)						130

The closing inventory for the past 4 FYEs are as follows:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Closing inventory				
- Raw materials	49,122	44,851	81,676	46,959
- Finished goods	17,710	20,666	21,478	17,814
	66,832	**65,517**	**103,154**	**64,773**

Our Group's raw materials mainly consist of cold rolled steel coils, hot rolled steel coils, hot rolled pickled and oiled coils, hot dip galvanised steel coils, galvannealed steel coils, electro-galvanised steel coils and wire rods.

Our Group's finished goods mainly consist of slit coils, steel sheets, steel pipes, flat bars, square bars, expanded metals, checkered plates and C Purlins.

As at 31 December 2018, our closing inventory for finished goods is RM17.81 million of which RM11.35 million (or 63.73%) consists of finished goods in standard specifications, while the remaining of RM6.46 million (or 36.27%) consists of finished goods in customised specifications. We recorded an increase in closing inventory of raw materials from RM44.85 million as at 31 December 2016 to RM81.68 million as at 31 December 2017 which was due to the increase in purchases of raw materials as part of our restocking exercise in anticipation of higher sales volume in early 2018 as well as the increase in the raw material prices purchased in FYE 2017. In FYE 2018, in anticipation of a slowdown in the construction industry, we reduced our purchase of raw materials, and as such, the closing inventory of raw materials decreased to RM46.96 million as at 31 December 2018.

Our Group practices weighted average basis in computing the cost of inventories and finished goods in the preparation of our accounting report. The costs are generally computed based on the weighted average cost of the raw materials/finished goods in the respective financial year.

We conduct a monthly management meeting to review the stockholding level and inventory ageing analysis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

Impairment on slow moving stocks is made under the following circumstances:

(i) for inventory held for more than 1 year, 10% impairment is made on finished goods only;

(ii) for inventory held for more than 2 years, 20% impairment is made on finished goods and 15% impairment is made on raw materials;

(iii) for inventory held for more than 3 years, 35% impairment is made on finished goods and 20% impairment is made on raw materials; and

(iv) if the selling price of the finished goods is below its cost, impairment will be made such that carrying value is recorded at net realisable value.

Our impairment on slow moving stocks for the past 4 FYEs are as follows:

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Impairment on slow moving stocks	652	810	-[(i)]	1,525[(ii)]

Notes:

(i) We recorded other income of RM0.25 million from the reversal of inventories previously written down from sale of inventories above its carrying value.

(ii) Due to the lower net realisable value of slow moving stocks recorded as at 31 December 2018 as the market price of the slow moving stocks were lower as at 31 December 2018.

Our Group's inventory turnover period for FYE 2015 to FYE 2016 and FYE 2018 is within the range of 119 days to 130 days. The higher inventory turnover period for FYE 2017 of 139 days was mainly due to the purchase of additional raw materials during FYE 2017 in anticipation of the increasing raw material prices during this financial year. There was no impairment of slow moving stocks recorded in FYE 2017.

11.7.4 Current ratio

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

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	RM'000	RM'000	RM'000	RM'000
Current assets	133,006	136,615	185,007	129,572
(Current liabilities)	(75,855)	(66,178)	(105,925)	(36,960)
Net current assets	**57,151**	**70,437**	**79,082**	**92,612**
Current ratio (times)	1.75	2.06	1.75	3.51

Our current ratio ranges from 1.75 times to 3.51 times for the past FYEs 2015 to 2018, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

11.7.5 Gearing ratio

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

	Audited			
	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Total borrowings (RM'000)	66,593	33,291	51,375	18,212
Total equity (RM'000)	105,517	115,701	144,809	155,783
Gearing ratio (times)	0.63	0.29	0.35	0.12

Our gearing ratio ranges around 0.12 times to 0.63 times for the past FYEs 2015 to 2018.

In FYE 2016, our gearing ratio decreased from 0.63 times as at FYE 2015 to 0.29 times as we increased our purchase of raw materials utilising credit terms instead of utilising borrowings.

In FYE 2017, our total borrowings increased to RM51.37 million due to the increased usage of bankers' acceptance for purchase of raw materials from the foreign suppliers. In addition, our total equity had increased resulting from the PAT of RM15.72 million recorded in FYE 2017 and the revaluation surplus of RM21.39 million (net of deferred tax liability) recorded during FYE 2017.

In FYE 2018, our gearing ratio decreased to 0.12 times due to lower usage of bankers' acceptance as we reduced the purchase of raw materials in anticipation of a slowdown in the construction industry.

11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR 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.

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

11.9 IMPACT OF INFLATION

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of our operation. 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.

11.10 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES

11.10.1 Impact of foreign exchange rates

We are exposed to transactional currency exposure as a substantial amount of our raw materials purchases are denominated in USD. Our Group's GP margin is therefore directly affected by the foreign currencies exchange rate fluctuation. The following is our Group's breakdown of purchases between RM and USD made during the FYEs 2015 to 2018:

	FYE 2015		**FYE 2016**		**FYE 2017**		**FYE 2018**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Purchases transacted in USD	60,385	33.22	52,421	31.18	79,857	33.18	100,458	55.79
Purchases transacted in RM	121,378	66.78	115,689	68.82	160,829	66.82	79,594	44.21
	181,763	**100.00**	**168,110**	**100.00**	**240,686**	**100.00**	**180,052**	**100.00**

The purchases transacted in USD are largely for the purchase of hot rolled steel coils, cold rolled steel coils, galvannealed steel coils and hot dip galvanised steel coils.

A depreciation of the RM against the USD may ultimately affect the cost of our purchases. This may adversely affect our financial performance as it would reduce our GP margin. Whilst we can pass on our foreign exchange risks by increasing the selling price of our products to maintain our GP margin, such action would result in our products becoming less competitive in the market and this in turn may affect our sales volume.

We are exposed to currency fluctuation between RM and USD during the timeframe between the confirmation of a purchase order and receipt of the raw material which is generally within 3 months. As such, we will only be exposed to the currency fluctuation for a period of 3 months. Due to the short foreign currency exposure period, our financial results have not been materially affected by foreign currency exposure fluctuations. For the past 4 FYEs 2015 to 2018, our gain and losses from the foreign exchange fluctuations are as follows:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Realised foreign exchange gain	59	174	27	9
Unrealised foreign exchange gain/(loss)	9	(12)	(7)	3
Net gain	**68**	**162**	**20**	**12**

In addition to the above, we had entered into USD denominated forward contracts to hedge our exposure against fluctuations in foreign currency for the import of raw materials. The USD denominated forward contracts entered into as at 31 December 2015, 2016, 2017 and 2018 are as follows:

	FYE 2015		**FYE 2016**		**FYE 2017**		**FYE 2018**	
	USD'000	**RM'000**	**USD'000**	**RM'000**	**USD'000**	**RM'000**	**USD'000**	**RM'000**
USD denominated forward contracts	750	3,218	784	3,515	1,129	4,640	3,548	14,847

In the past 4 FYEs 2015 to 2018, we incurred losses arising from the fluctuations in foreign exchange from the forward contracts that we entered into, as follows:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net loss	61	12	40	93

Note:

The losses are due to the differences between foreign exchange spot as at respective FYE and forward contract rates entered into by our Group.

11.10.2 Impact of interest rates

Interest coverage ratio measures the number of times a company can make its interest payments with its profit before interest and tax. The interest coverage ratio for the past financial years under review is as follows:

	Audited			
	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
Interest coverage ratio (times)[1]	2.73	7.16	10.62	6.07

Note:

(1) Computed based on profit before interest and tax over finance costs for the FYEs 2015 to 2018.

Our interest coverage ratio of between 2.73 to 10.62 times for the FYEs 2015 to the FYE 2018 indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations.

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

11.10.3 Impact of commodity prices

Our Group is exposed to fluctuation in prices of commodities, particularly steel coils and wire rods, all of which are affected by factors beyond our control, which amongst others, include the state of the global economy, the level of industrial development worldwide and foreign currency fluctuations. Any increase in the price of raw materials will increase our cost of sales and ultimately, our profitability.

11.11 ORDER BOOK

Due to the nature of our business, our Group does not maintain an order book. Revenue is generated as and when we deliver our products to our customers.

11.12 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) Our Group's revenue will remain sustainable despite a weaker outlook of the steel market in general as the demand for steel products including steel processing activities will continue to be driven by the wide application of steel products;

(b) Our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our future plans as stated in Section 6.18;

(c) Our revenue and profitability is expected to improve following the completion of the construction of our new factory and setting up of our new wire mesh product line as stated in Section 6.18.1; and

(d) Our financial resources will strengthen, taking into account the amount to be raised from the IPO as well as internally generated funds. We may consider debt funding for our business expansion should the need arises.

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

11.13 TREND INFORMATION

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

(a) For the past financial years under review, more than 70% of our revenue was derived from steel processing segment. We expect the steel processing segment to continue contributing significantly to our revenue in the future;

(b) For the past financial years under review, 99% of our revenue is derived locally. At this juncture, we have no intention to increase our export sales; and

(c) The main component of our cost of sales is raw material which consistently constitutes more than 90% of total cost of sales. The cost of raw material is dependent on steel prices which are affected by factors beyond our control. As such, our cost of sales will fluctuate in tandem with the steel prices.

In addition, we wish to highlight that:

(i) our GP margin will not be sustainable if there is a significant decrease in global steel coil prices going forward which will reduce our average selling prices. As such, the historical trend of our GP margin does not reflect our future GP margin trend; and

(ii) in the past FYE 2015 and FYE 2016, our effective tax rates were lower than the statutory tax rates as we benefited from capital reinvestment allowance.

As part of our future plans, we plan to acquire 5 wire mesh manufacturing lines. We plan to apply for capital reinvestment allowance which if successfully applied, will result in a lower effective tax rates.

However, once the capital reinvestment allowance is fully utilised, we will no longer benefit from such tax savings, hence our effective tax rates will be higher.

Save as disclosed in Section 11.2, our Board is not aware of any other factors which are likely to have a material effect on our financial condition and results of operations or cause our Group's historical financial statements to be not necessarily indicative of our future financial performance.

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths set out in Section 6.8 and our Group's business strategies as set out in Section 6.18.

11.14 DIVIDENDS

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from the financiers of Tashin Steel and Tashin Hardware as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Generally, consent from the financier is required if any payment or declaration of such dividend exceeds or will exceed the PAT or a specific PAT threshold as presecribed in the respective facility agreement. 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. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

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

	FYE 2015	**FYE 2016**	**FYE 2017**	**FYE 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Dividends declared	1,000	4,000	6,000	2,500

Notes:

(i) **FYE 2015**
- RM1.0 million was declared on 31 July 2015 and paid on 22 December 2015.

(ii) **FYE 2016**
- RM1.0 million was declared on 3 August 2016 and paid on 10 August 2016;
- RM1.0 million was declared on 11 October 2016 and paid on 17 October 2016; and
- RM2.0 million was declared on 14 March 2017 and paid on 28 April 2017.

(iii) **FYE 2017**
- RM2.0 million was declared on 26 July 2017 and paid on 15 August 2017; and
- RM4.0 million was declared on 8 December 2017 and paid on 22 December 2017.

(iv) **FYE 2018**
- RM2.5 million was declared on 20 February 2019 and paid on 11 March 2019.

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11.15 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 Tashin Steel and Public Issue including the utilisation of proceeds from the Public Issue.

	Tashin Holdings	I	II
	As at 30 April 2019 [1]	After the Public Issue	After I and utilisation of proceeds
	RM'000	RM'000	RM'000
Capitalisation			
Shareholders' equity	157,448	191,859	190,417
Total capitalisation	**157,448**	**191,859**	**190,417**
Indebtedness[2]			
Current			
Bankers' acceptance	26,865	26,865	26,865
Revolving credit	-	-	-
Term loans	-	-	-
Hire purchase	54	54	54
Non-current			
Term loans	-	-	-
Hire purchase	43	43	43
Contingent liabilities	-	-	-
Total indebtedness	**26,962**	**26,962**	**26,962**
Total capitalisation and indebtedness	**184,410**	**218,821**	**217,379**
Gearing ratio[3](times)	**0.17**	**0.14**	**0.14**

Notes:

(1) The Acquisition of Tashin Steel was completed on 9 April 2019.

(2) A total of RM8.54 million of our indebtedness are secured while the balance is unsecured.

(3) Calculated based on the total indebtedness divided by the total capitalisation.

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The Board of Directors
Tashin Holdings Berhad
Level 7, Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Malaysia

Date: 27 May 2019

Our ref: BDO/LKH/TKY

Dear Sirs

REPORTING ACCOUNTANTS' OPINION ON THE FINANCIAL INFORMATION CONTAINED IN THE ACCOUNTANTS' REPORT OF TASHIN HOLDINGS BERHAD ("TASHIN HOLDINGS OR THE COMPANY OR THE GROUP")

Opinion

We have audited the financial information of Tashin Holdings Berhad, which comprise the combined statements of financial position as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 of the Group as defined in Note 3, and combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 and notes to the combined financial statements as set out on pages 5 to 68 (collectively referred to herein as "the Combined Financial Statements").

This report is prepared solely to comply with the Prospectus Guidelines - Equity issued by the Securities Commission Malaysia and for inclusion in the Prospectus of Tashin Holdings Berhad in connection with the initial public offering of ordinary shares of Tashin Holdings Berhad on the Ace Market of Bursa Malaysia Securities Berhad and for no other purpose. We do not assume responsibility to any other person for the content of this report.

In our opinion, the combined financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 and of their financial performance and cash flows for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 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. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

BDO

Independence and Other Ethical Responsibilities

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

Directors' Responsibility for the Combined Financial Statements

The Directors of the Company are responsible for the preparation of the combined financial statements 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, 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 Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

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Reporting Accountants' Responsibility for the Audit of the Combined Financial Statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (continued):

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined 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.

BDO

Other Matters

The significant events during the financial year ended 31 December 2018 have been disclosed in Note 25 to this report. The significant event subsequent to the financial year ended 31 December 2018 has been disclosed in Note 26 to this report.

BDO PLT
LLP0018825-LCA & AF 0206
Chartered Accountants

Law Kian Huat
02855/06/2020 J
Chartered Accountant

Kuala Lumpur
27 May 2019

Stamped for the purpose of identification only
2 7 MAY 2019
BDO PLT
(LLP0018825-LCA & AF 0206)
Chartered Accountants
Kuala Lumpur

TASHIN HOLDINGS BERHAD (1242878 - H)

(Incorporated in Malaysia)

ACCOUNTANTS' REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	2015 RM	2016 RM	2017 RM	2018 RM
ASSETS					
Non-current assets					
Property, plant and equipment	5	50,309,194	49,504,616	75,766,827	73,398,470
Investment property	6	4,600,000	-	-	-
		54,909,194	49,504,616	75,766,827	73,398,470
Current assets					
Inventories	7	66,832,141	65,516,669	103,154,185	64,773,043
Derivative assets	8	19,125	7,286	-	-
Trade and other receivables	9	57,547,975	62,674,109	57,297,383	49,976,404
Current tax assets		61,500	-	-	-
Cash and bank balances	10	8,545,594	8,416,978	24,555,502	14,822,938
		133,006,335	136,615,042	185,007,070	129,572,385
TOTAL ASSETS		187,915,529	186,119,658	260,773,897	202,970,855
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Invested equity		20,000,000	20,000,000	20,000,002	20,000,002
Retained earnings		85,517,463	95,700,953	103,675,294	115,289,113
Revaluation reserve		-	-	21,134,084	20,493,751
TOTAL EQUITY		105,517,463	115,700,953	144,809,380	155,782,866
Non-current liabilities					
Borrowings	11	3,173,953	1,445,269	269,543	61,261
Deferred tax liabilities	12	3,369,000	2,796,000	9,769,922	10,166,544
		6,542,953	4,241,269	10,039,465	10,227,805
Current liabilities					
Trade and other payables	13	12,329,757	32,568,522	52,844,123	18,064,577
Borrowings	11	63,419,556	31,846,108	51,104,726	18,151,282
Derivative liabilities	8	-	-	32,703	125,951
Current tax liabilities		105,800	1,762,806	1,943,500	618,374
		75,855,113	66,177,436	105,925,052	36,960,184
TOTAL LIABILITIES		82,398,066	70,418,705	115,964,517	47,187,989
TOTAL EQUITY AND LIABILITIES		187,915,529	186,119,658	260,773,897	202,970,855

TASHIN HOLDINGS BERHAD (1242878 - H)

(Incorporated in Malaysia)

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2015 RM	2016 RM	2017 RM	2018 RM
Revenue	14	212,283,708	214,741,139	257,701,130	260,544,926
Cost of sales		(196,419,136)	(185,247,322)	(221,568,508)	(235,385,311)
Gross profit		15,864,572	29,493,817	36,132,622	25,159,615
Other income		1,001,554	963,480	2,201,719	5,419,023
Selling and distribution expenses		(2,438,673)	(2,612,160)	(3,418,703)	(2,845,747)
Administrative expenses		(6,363,778)	(6,863,310)	(9,102,323)	(9,102,153)
Other expenses		(323,664)	(4,151,439)	(2,076,360)	(1,103,139)
Finance costs		(2,837,927)	(2,350,626)	(2,234,829)	(2,889,268)
Interest income		85,310	105,022	168,621	190,631
Profit before tax	15	4,987,394	14,584,784	21,670,747	14,828,962
Tax expense	16	(826,878)	(2,401,294)	(5,955,941)	(3,548,175)
Profit for the financial year		4,160,516	12,183,490	15,714,806	11,280,787
Other comprehensive income, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Revaluation surplus		-	-	21,393,619	-
Total comprehensive income		4,160,516	12,183,490	37,108,425	11,280,787
Profit after taxation attributable to:					
Owners of the parent		4,160,516	12,183,490	15,714,806	11,280,787
Total comprehensive income attributable to:					
Owners of the parent		4,160,516	12,183,490	37,108,425	11,280,787
Earnings per share (Sen) income attributable to:					
- Basic	17	1.19	3.49	4.50	3.23
- Diluted	17	1.19	3.49	4.50	3.23

TASHIN HOLDINGS BERHAD (1242878 - H) 7

(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Non - distributable Invested equity RM	Distributable Retained earnings RM	Total Equity RM
Balance as at 1 January 2015		20,000,000	82,356,947	102,356,947
Profit for the financial year		-	4,160,516	4,160,516
Other comprehensive income, net of tax		-	-	-
Total comprehensive income		-	4,160,516	4,160,516
Transaction with owners				
Dividends paid	18	-	(1,000,000)	(1,000,000)
Total transaction with owners		-	(1,000,000)	(1,000,000)
Balance as at 31 December 2015		20,000,000	85,517,463	105,517,463
Balance as at 1 January 2016		20,000,000	85,517,463	105,517,463
Profit for the financial year		-	12,183,490	12,183,490
Other comprehensive income, net of tax		-	-	-
Total comprehensive income		-	12,183,490	12,183,490
Transaction with owners				
Dividends paid	18	-	(2,000,000)	(2,000,000)
Total transaction with owners		-	(2,000,000)	(2,000,000)
Balance as at 31 December 2016		20,000,000	95,700,953	115,700,953

TASHIN HOLDINGS BERHAD (1242878 - H)

(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY (continued)

	Note	Non - distributable		Distributable	
		Invested equity RM	Revaluation reserve RM	Retained earnings RM	Total equity RM
Balance as at 1 January 2017		20,000,000	-	95,700,953	115,700,953
Profit for the financial year		-		15,714,806	15,714,806
Revaluation surplus		-	21,393,619	-	21,393,619
Total comprehensive income		-	21,393,619	15,714,806	37,108,425
Transfer due to realisation of revaluation reserve		-	(259,535)	259,535	-
Transactions with owners					
Dividends paid	18	-	-	(8,000,000)	(8,000,000)
Issuance of shares by the Company at date of incorporation		2	-	-	2
Total transactions with owners		2	-	(8,000,000)	(7,999,998)
Balance as at 31 December 2017		20,000,002	21,134,084	103,675,294	144,809,380
Adjustments on initial application of MFRS 9		-	-	(307,301)	(307,301)
Balance as at 1 January 2018, as restated		20,000,002	21,134,084	103,367,993	144,502,079
Profit for the financial year		-	-	11,280,787	11,280,787
Revaluation surplus		-	-	-	-
Total comprehensive income		-	-	11,280,787	11,280,787
Transfer due to realisation of revaluation reserve		-	(640,333)	640,333	-
Balance as at 31 December 2018		20,000,002	20,493,751	115,289,113	155,782,866

TASHIN HOLDINGS BERHAD (1242878 - H) 9

(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS

	Note	2015 RM	2016 RM	2017 RM	2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		4,987,394	14,584,784	21,670,747	14,828,962
Adjustments for:					
Depreciation of property, plant and equipment	5	2,579,463	2,655,558	3,204,629	3,669,905
Fair value adjustment on derivative assets	8(c)	60,562	11,839	39,989	93,248
(Gain)/Loss on disposal of property, plant and equipment		(107,200)	(42,023)	(23,085)	7,572
Impairment loss on trade receivables	9(h)	-	680,278	535,079	25,820
Interest expense		2,837,927	2,350,626	2,234,829	2,889,268
Interest income		(85,310)	(105,022)	(168,621)	(190,631)
Inventories written down	7(c)	652,000	810,000	-	1,525,000
Reversal of inventories written down	7(d)	-	-	(253,000)	-
Reversal of impairment losses on property, plant and equipment	5(k)	-	-	(8,252)	-
Reversal of impairment losses on trade receivables	9(h)	(167,500)	-	-	(107,781)
Unrealised (gain)/loss on foreign exchange		(9,153)	12,394	6,977	(3,403)
Operating profit before changes in working capital		10,748,183	20,958,434	27,239,292	22,737,960
Changes in working capital:					
Inventories		(5,958,081)	505,472	(37,384,516)	36,856,142
Trade and other receivables		(9,584,437)	(6,798,674)	4,944,103	6,895,073
Amounts owing by related companies		145,845	(70,132)	(109,433)	203,969
Amounts owing to related companies		(209,380)	(23,974)	215	21,256
Trade and other payables		(1,188,797)	14,435,739	26,102,386	(34,800,802)
Cash (used in)/generated from operations		(6,046,667)	29,006,865	20,792,047	31,913,598
Tax paid		(492,583)	(1,255,788)	(5,649,443)	(4,476,679)
Tax refunded		369,015	-	92,238	-
Net cash (used in)/from operating activities		(6,170,235)	27,751,077	15,234,842	27,436,919

TASHIN HOLDINGS BERHAD (1242878 - H)

(Incorporated in Malaysia)

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Chartered Accountants
Kuala Lumpur

COMBINED STATEMENTS OF CASH FLOWS (continued)

	Note	2015 RM	2016 RM	2017 RM	2018 RM
CASH FLOWS FROM INVESTING ACTIVITIES					
Repayments from corporate shareholder		600,000	1,050,000	-	-
Advances from/(Repayments to) related companies		-	5,827,000	(5,827,000)	-
Interest received		85,310	105,022	168,621	190,631
Proceeds from disposal of property, plant and equipment		340,000	80,000	136,791	124,491
Proceed from disposal of investment property		-	4,600,000	-	-
Purchase of property, plant and equipment	5(h)	(679,322)	(1,638,957)	(1,422,795)	(1,433,611)
Net cash from/(used in) from investing activities		345,988	10,023,065	(6,944,383)	(1,118,489)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of hire purchase		(43,290)	(537,203)	(524,908)	(486,439)
Drawdown/(Repayments) of bankers' acceptances		14,390,000	(31,211,000)	20,022,000	(31,986,000)
Repayments of term loans		(2,200,951)	(1,803,929)	(1,414,200)	(689,287)
Interest paid		(2,837,927)	(2,350,626)	(2,234,829)	(2,889,268)
Dividends paid	18	(1,000,000)	(2,000,000)	(8,000,000)	-
Proceeds from issuance of shares		-	-	2	-
Net cash from/(used in) financing activities		8,307,832	(37,902,758)	7,848,065	(36,050,994)
Net increase/(decrease) in cash and cash equivalents		2,483,585	(128,616)	16,138,524	(9,732,564)
Cash and cash equivalents at beginning of financial year		6,062,009	8,545,594	8,416,978	24,555,502
Cash and cash equivalents at end of financial year	10	8,545,594	8,416,978	24,555,502	14,822,938

Reconciliation of liabilities arising from financing activities

	Note	2015 RM	2016 RM	2017 RM	2018 RM
Borrowings at 1 January		52,991,583	66,593,509	33,291,377	51,374,269
Cash flows					
Repayment of hire purchase		(43,290)	(537,203)	(524,908)	(486,439)
Drawdown/(Repayments) of bankers' acceptances		14,390,000	(31,211,000)	20,022,000	(31,986,000)
Repayments of term loans		(2,200,951)	(1,803,929)	(1,414,200)	(689,287)
		12,145,759	(33,552,132)	18,082,892	(33,161,726)
Non-cash changes					
Financed by hire purchase arrangement	5(h)	1,456,167	250,000	-	-
Borrowings at 31 December	11	66,593,509	33,291,377	51,374,269	18,212,543

TASHIN HOLDINGS BERHAD (1242878 - H)

(Incorporated in Malaysia)

NOTES TO THE COMBINED FINANCIAL STATMENTS
31 DECEMBER 2018, 31 DECEMBER 2017, 31 DECEMBER 2016 AND 31 DECEMBER 2015

1. CORPORATE INFORMATION

Tashin Holdings Berhad ("Tashin Holdings or "the Company" or "the Group") is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Company is located at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur.

The principal place of business of the Company is located at Plot 40, Lorong Perusahaan Maju 7, Kawasan Perusahaan 4, 13600 Prai, Penang.

These combined financial statements are presented in Ringgit Malaysia ('RM'), which is also the functional currency of the Group and of the Company.

2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities of the combining entities are as disclosed in Note 4. There have been no significant changes in the nature of these principal activities during the financial years.

3. BASIS OF PREPARATION

The combined financial statements have been prepared pursuant to the listing exercise of the Company on the ACE Market of Bursa Malaysia Securities Berhad.

The combined financial statements consist of the audited financial statements of the Company and the audited consolidated financial statements of Tashin Steel Sdn. Bhd. and its subsidiary for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018.

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 commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.

The financial information as presented in the combined financial statements may not correspond with the consolidated financial statements of the Group, after incorporating/effecting the relevant acquisitions. Consequently, such financial information from the combined financial statements does not purport to predict the financial positions, results of operation and cash flows of the combining entities.

3. BASIS OF PREPARATION (continued)

The combined financial statements of the Group are prepared using the audited financial statements of the respective companies within the Group for the relevant financial periods/years and their auditors are as follows:

Company	Relevant Financial Years/Periods	Auditors
Tashin Holdings Berhad	14 August 2017 to 31 December 2017	BDO
	FYE 31 December 2018	BDO PLT
Tashin Steel Sdn. Bhd.	FYE 31 December 2015	BDO
	FYE 31 December 2016	BDO
	FYE 31 December 2017	BDO
	FYE 31 December 2018	BDO PLT
Tashin Hardware Sdn. Bhd.	FYE 31 December 2015	BDO
	FYE 31 December 2016	BDO
	FYE 31 December 2017	BDO
	FYE 31 December 2018	BDO PLT

There were no audited financial statements for Tashin Holdings Berhad for the FYE 31 December 2015 and FYE 31 December 2016 as Tashin Holdings Berhad was only incorporated on 14 August 2017 and the first set of audited financial statements of Tashin Holdings Berhad covered the financial period from 14 August 2017 to 31 December 2017.

The audited financial statements of the respective companies within the Group for the relevant financial period/years reported above were not subject to any qualification or modification.

3.1 Basis of accounting

The Group applied MFRS 15 *Revenue from Contracts with Customers* and MFRS 9 *Financial Instruments* for the first time during the current financial year, using the cumulative effect method as at 1 January 2018. Consequently, the comparative information were not restated and are not comparable to the financial information of the current financial year.

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and Amendments to MFRSs adopted during the financial year are disclosed in Note 27.1 to the financial statements.

The combined financial statements of the Group have been prepared under the historical cost convention.

The preparation of combined financial statements in conformity with MFRSs and IFRSs 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. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

3. BASIS OF PREPARATION (continued)

3.2 Basis for combination

The combined financial statements consist of the financial statements of the combining entities which are under common control as disclosed in Note 4 accordingly. Subsidiaries are entities controlled by the Group. 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 of the Group and potential voting rights.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. The combined financial statements reflect external transactions only.

3.2.1 Common control entities

Business combination involving entities under common control are accounted for by applying the merger accounting principles. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements.

In a business combination involving entities under common control, any differences between the cost of the merger and the share capital of the "acquired" entity is reflected within equity as merger reserve.

The combined statements of profit or loss and other comprehensive income reflects the results of the combining entities for the full year and the comparatives are presented as if the entities had always been combined since the date for which the entities had come under common control.

3.2.2 Non-common control entities

In a business combination accounted for by applying the acquisition method of accounting, the 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

3. BASIS OF PREPARATION (continued)

3.2 Basis for combination (continued)

3.2.2 Non-common control entities (continued)

In a business combination accounted for by applying the acquisition method of accounting, the identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that (continued):

(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 or MFRS 9 are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 139 or 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 fair value. 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.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the previously held equity interest of the Group in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the consolidated statement of financial position.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

3. BASIS OF PREPARATION (continued)

3.2 Basis for combination (continued)

3.2.2 Non-common control entities (continued)

Non-controlling interests represent equity in subsidiaries that are not attributable, directly or indirectly, to the owners, 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 owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent 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 acquired or disposed off during the financial period/year 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 Group owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to the owners.

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

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and

(ii) the 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 subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed off. The fair value of any investments retained in the former subsidiary 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 or MFRS 9 Financial Instruments or, where applicable, the cost on initial recognition of an investment in associate.

4. COMBINING ENTITIES

Details of the combining entities, all of which are incorporated in Malaysia, are as follows:

Name of combining entities	Date of incorporation	Effective equity interest 31.12.2015	31.12.2016	31.12.2017	31.12.2018	Principal activity
Tashin Holdings Berhad	14 August 2017	100%	100%	100%	100%	Investment holdings
Tashin Steel Sdn. Bhd.	30 October 1998	100%	100%	100%	100%	Manufacturing and selling of steel products.
Subsidiary of Tashin Steel Sdn. Bhd.						
Tashin Hardware Sdn. Bhd.	16 February 2004	100%	100%	100%	100%	Manufacturing and trading of steel material and general hardware products.

5. PROPERTY, PLANT AND EQUIPMENT

2015	Balance as at 1.1.2015 RM	Additions RM	Disposals RM	Depreciation charge for the financial year RM	Balance as at 31.12.2015 RM
Carrying amount					
Buildings	21,301,459	-	-	(500,681)	20,800,778
Leasehold land	4,065,538	-	-	(108,142)	3,957,396
Furniture, fittings and office equipment	149,234	45,523	-	(40,796)	153,961
Motor vehicles	1,970,458	269,664	(78,002)	(452,883)	1,709,237
Plant and equipment	23,499,279	282,142	(154,798)	(1,476,961)	22,149,662
Construction work-in-progress	-	1,538,160	-	-	1,538,160
	50,985,968	2,135,489	(232,800)	(2,579,463)	50,309,194

	<---------- At 31 December 2015			---------->
	Cost RM	Accumulated depreciation RM	Accumulated impairment loss RM	Carrying amount RM
Buildings	25,054,108	(4,253,330)	-	20,800,778
Leasehold land	5,333,059	(1,375,663)	-	3,957,396
Furniture, fittings and office equipment	953,300	(799,339)	-	153,961
Motor vehicles	5,585,272	(3,876,035)	-	1,709,237
Plant and equipment	34,162,741	(11,016,111)	(996,968)	22,149,662
Construction work-in-progress	1,538,160	-	-	1,538,160
	72,626,640	(21,320,478)	(996,968)	50,309,194

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

2016	Balance as at 1.1.2016 RM	Additions RM	Disposal RM	Depreciation charge for the financial year RM	Reclassification RM	Balance as at 31.12.2016 RM
Carrying amount						
Buildings	20,800,778	61,000	-	(501,083)	-	20,360,695
Leasehold land	3,957,396	-	-	(108,142)	-	3,849,254
Furniture, fittings and office equipment	153,961	242,447	-	(47,433)	-	348,975
Motor vehicles	1,709,237	662,254	(37,977)	(420,066)	-	1,913,448
Plant and equipment	22,149,662	918,256	-	(1,578,834)	1,543,160	23,032,244
Construction work-in-progress	1,538,160	5,000	-	-	(1,543,160)	-
	50,309,194	1,888,957	(37,977)	(2,655,558)	-	49,504,616

	At 31 December 2016			
	Cost RM	Accumulated depreciation RM	Accumulated impairment loss RM	Carrying amount RM
Buildings	25,115,108	(4,754,413)	-	20,360,695
Leasehold land	5,333,059	(1,483,805)	-	3,849,254
Furniture, fittings and office equipment	1,195,747	(846,772)	-	348,975
Motor vehicles	5,867,751	(3,954,303)	-	1,913,448
Plant and equipment	36,624,157	(12,594,945)	(996,968)	23,032,244
	74,135,822	(23,634,238)	(996,968)	49,504,616

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

2017	Balance as at 1.1.2017 RM	Additions RM	Revaluation RM	Disposal RM	Depreciation charge for the financial year RM	Reversal of impairment loss RM	Balance as at 31.12.2017 RM
Carrying amount							
Buildings	20,360,695	-	15,235,671	-	(689,159)	-	34,907,207
Leasehold land	3,849,254	-	12,913,828	-	(261,962)	-	16,501,120
Furniture, fittings and office equipment	348,975	68,599	-	-	(74,521)	-	343,053
Motor vehicles	1,913,448	1,309,551	-	(113,706)	(589,657)	-	2,519,636
Plant and equipment	23,032,244	44,645	-	-	(1,589,330)	8,252	21,495,811
	49,504,616	1,422,795	28,149,499	(113,706)	(3,204,629)	8,252	75,766,827

	<---- At 31 December 2017 ---->				
	Cost RM	Valuation RM	Accumulated depreciation RM	Accumulated impairment loss RM	Carrying amount RM
Buildings	25,115,108	15,235,671	(5,443,572)	-	34,907,207
Leasehold land	5,333,059	12,913,828	(1,745,767)	-	16,501,120
Furniture, fittings and office equipment	1,264,346	-	(921,293)	-	343,053
Motor vehicles	6,040,228	-	(3,520,592)	-	2,519,636
Plant and equipment	36,668,802	-	(14,184,275)	(988,716)	21,495,811
	74,421,543	28,149,499	(25,815,499)	(988,716)	75,766,827

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

2018	Balance as at 1.1.2018 RM	Additions RM	Revaluation RM	Disposal RM	Depreciation charge for the financial year RM	Reversal of impairment loss RM	Balance as at 31.12.2018 RM
Carrying amount							
Buildings	34,907,207	269,739	-	-	(956,694)	-	34,220,252
Leasehold land	16,501,120	-	-	-	(477,310)	-	16,023,810
Furniture, fittings and office equipment	343,053	41,794	-	-	(83,945)	-	300,902
Motor vehicles	2,519,636	365,010	-	(132,063)	(557,573)	-	2,195,010
Plant and equipment	21,495,811	4,770	-	-	(1,594,383)	-	19,906,198
Construction work-in-progress	-	752,298	-	-	-	-	752,298
	75,766,827	1,433,611	-	(132,063)	(3,669,905)	-	73,398,470

	<------ At 31 December 2018				------>
	Cost RM	Valuation RM	Accumulated depreciation RM	Accumulated impairment loss RM	Carrying amount RM
Buildings	25,384,847	15,235,671	(6,400,266)	-	34,220,252
Leasehold land	5,333,059	12,913,828	(2,223,077)	-	16,023,810
Furniture, fittings and office equipment	1,306,140	-	(1,005,238)	-	300,902
Motor vehicles	5,990,238	-	(3,795,228)	-	2,195,010
Plant and equipment	36,673,572	-	(15,778,658)	(988,716)	19,906,198
Construction work-in-progress	752,298	-	-	-	752,298
	75,440,154	28,149,499	(29,202,467)	(988,716)	73,398,470

5. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) 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.

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 would flow to the Group and the cost of the asset could 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 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 is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

(b) After initial recognition, property, plant and equipment except leasehold land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses. Leasehold land and buildings are stated at valuation, which is the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Leasehold land and buildings are revalued at least every three (3) years to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of each reporting period. The surplus arising from such revaluations is credited to shareholders' equity as a revaluation reserve, net of deferred tax, if any, and any subsequent deficit is offset against such surplus to the extent of a previous increase for the same property. In all other cases, the deficit would be charged to profit or loss. For a revaluation increase subsequent to a revaluation deficit of the same asset, the surplus is recognised as income to the extent that it reverses the deficit previously recognised as an expense with the balance of increase credited to revaluation reserve.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight-line basis over their estimated useful lives. The principal depreciation periods are as follows:

Buildings	50 years
Leasehold land	50 years
Furniture, fittings and office equipment	5 - 10 years
Motor vehicles	6 years
Plant and equipment	7 - 20 years

The Group has assessed and classified land use rights as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term. Consequently, the Group has classified the unamortised upfront payment for land use rights as finance leases in accordance with MFRS 117 *Leases*.

Construction work-in-progress represents machinery under installation and is stated at cost. Construction work-in-progress is not depreciated until such time when the asset is available for use.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) At the end of each reporting year, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting year to ensure that the amount, method and year 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.

(d) The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss and the revaluation surplus related to those assets, if any, is transferred directly to retained earnings.

(e) During the financial year ended 31 December 2017, the Group changed its accounting policy with respect to the subsequent measurement of leasehold land and buildings from the cost model to the revaluation model, with revaluation surplus recognised in revaluation reserve, net of deferred tax.

Leasehold land and buildings of the Group were revalued on 31 July 2017 and subsequently updated on 8 January 2018 by the Directors based on a valuation exercise carried out by an independent professional valuer using the open market value basis.

Had the revalued assets been carried at cost, the carrying amounts would have been:

	2017 RM	2018 RM
Leasehold land	3,741,112	3,632,971
Buildings	19,859,209	19,622,671

(f) The fair value of leasehold land and buildings (at valuation) of the Group are categorised as follows:

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2018				
Leasehold land	-	-	16,023,810	16,023,810
Buildings	-	-	34,220,252	34,220,252

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2017				
Leasehold land	-	-	16,501,120	16,501,120
Buildings	-	-	34,907,207	34,907,207

5. PROPERTY, PLANT AND EQUIPMENT (continued)

(f) The fair value of leasehold land and buildings (at valuation) of the Group are categorised as follows (continued):

(i) There were no transfers between Level 1 and Level 2 fair value measurements during the financial years ended 31 December 2018 and 31 December 2017.

(ii) Leasehold land and buildings at Level 3 fair value measurements are based primarily on latest available market transactions of similar properties within the vicinities as well as reports by professional valuers.

In relying on the valuation reports, the Directors have exercised its judgement and is satisfied that the valuation methods and estimates reflect the current market conditions.

(iii) The fair value measurements of the leasehold land and buildings (at valuation) are based on the highest and best use which does not differ from their actual use.

(g) As at the end of reporting period, certain buildings and leasehold land of the Group with carrying amount of RM18,654,035 (2017: RM18,961,497; 2016: RM5,378,642; 2015: RM5,939,655) and RM8,345,324 (2017: RM8,595,683; 2016: RM1,824,611; 2015: RM1,880,554) respectively have been charged as securities for banking facilities granted to the Group as disclosed in Note 11 to the combined financial statements.

(h) During the relevant period, the Group made the following cash payments to purchase property, plant and equipment:

	2015 RM	2016 RM	2017 RM	2018 RM
Purchase of property, plant and equipment	2,135,489	1,888,957	1,422,795	1,433,611
Financed by hire purchase arrangements	(1,456,167)	(250,000)	-	-
Cash payments on purchase of property, plant and equipment	679,322	1,638,957	1,422,795	1,433,611

(i) The carrying amount of the property, plant and equipment of the Group under hire purchase and finance leases at the end of the reporting period are as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Motor vehicles	229,214	430,043	190,925	150,188
Plant and equipment	-	1,481,434	1,419,707	-
Construction work-in-progress	1,240,167	-	-	-
	1,469,381	1,911,477	1,610,632	150,188

Details of the terms and conditions of the hire purchase and finance lease arrangements are disclosed in Note 11.1 to the combined financial statements.

5. PROPERTY, PLANT AND EQUIPMENT (continued)

(j) The carrying amount of the property, plant and equipment of the Group under term loan facilities at the end of the reporting period are as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Buildings	3,401,857	3,332,431	3,263,005	-
Plant and equipment	8,005,354	7,671,903	4,493,274	4,289,034
	11,407,211	11,004,334	7,756,279	4,289,034

(k) During the financial year ended 31 December 2017, the Group had carried out a review of the recoverable amount of its property, plant and equipment and adjusted carrying amounts of certain property, plant and equipment to their recoverable amounts. The impairment losses included in profit or loss were as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Impairment losses	-	-	57,858	-
Reversal of impairment losses	-	-	(66,110)	-
	-	-	(8,252)	-

6. INVESTMENT PROPERTY

	2015 RM	2016 RM	2017 RM	2018 RM
Freehold land - at cost				
Balance as at 1 January	4,766,848	4,766,848	-	-
Less: Disposal during the financial year	-	(4,766,848)	-	-
Balance as at 31 December	4,766,848	-	-	-
Accumulated impairment loss				
Balance as at 1 January	(166,848)	(166,848)	-	-
Less: Disposal during the financial year	-	166,848	-	-
Balance as at 31 December	(166,848)	-	-	-
Net carrying amount as at 31 December	4,600,000	-	-	-

6. INVESTMENT PROPERTY (continued)

(a) Investment property is property which is held to earn rental yields or for capital appreciation or for both and are not occupied by the Group. Investment property is initially measured at cost, which includes transaction costs.

Subsequent costs are included in the carrying amount of the investment property 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 would flow to the Group and the cost of the asset could be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of investment property is recognised in profit or loss as incurred.

(b) After initial recognition, investment property is stated at cost less accumulated depreciation and impairment losses, if any.

(c) At the end of each reporting period, the carrying amount of an item of the investment property is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

The residual values, useful lives and depreciation methods 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 investment property. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

(d) Investment property is derecognised when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from their disposal. The gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

(e) Direct operating expenses arising from non-income generating investment property during the financial year are as follows:

	2015 **RM**	**2016** **RM**	**2017** **RM**	**2018** **RM**
Quit rent and assessment	150	150	-	-

(f) The fair value of investment property of the Group which are not carried at fair value are categorised as follows:

	Level 1 **RM**	**Level 2** **RM**	**Level 3** **RM**	**Total** **RM**
2015				
Freehold land	-	-	4,600,000	4,600,000

(i) There were no transfers between Level 1 and Level 2 fair value measurements during the financial years ended 31 December 2015 and 31 December 2016.

(ii) The fair value of investment property at Level 3 not carried at fair value was assessed by the Directors as at the end of the reporting period by reference to an external valuation report.

7. INVENTORIES

	2015 RM	2016 RM	2017 RM	2018 RM
At cost				
Raw materials	48,918,046	39,524,475	75,451,528	33,658,789
Manufactured and trading inventories	13,650,004	16,293,194	17,939,657	13,944,033
	62,568,050	55,817,669	93,391,185	47,602,822
At net realisable value				
Raw materials	204,503	5,326,000	6,225,000	13,300,231
Manufactured and trading inventories	4,059,588	4,373,000	3,538,000	3,869,990
	4,264,091	9,699,000	9,763,000	17,170,221
	66,832,141	65,516,669	103,154,185	64,773,043

(a) The cost of raw materials and consumables are determined on the weighted average basis.

(b) During the financial year, inventories of the Group recognised as cost of sales amounted to RM235,385,311 (2017: 221,568,508; 2016: RM185,247,322; 2015: RM196,419,136).

(c) During the financial year, the Group wrote down inventories to the net realisable value of RM1,525,000 (2017: RM nil; 2016: RM810,000; 2015: RM652,000).

(d) During the financial year ended 31 December 2017, the Group reversed RM253,000 of a write down of inventories which was subsequently not required as the Group was able to sell those inventories above their carrying amount.

8. DERIVATIVE ASSETS/(LIABILITIES)

	2015		2016		2017		2018	
	Contract/ Notional amount RM	Assets RM	Contract/ Notional amount RM	Assets RM	Contract/ Notional amount RM	Liabilities RM	Contract/ Notional amount RM	Liabilities RM
Forward currency contracts	3,217,875	19,125	3,515,024	7,286	4,639,617	(32,703)	14,847,362	(125,951)

(a) Derivatives are initially recognised at fair value through profit or loss, and subsequently remeasured to fair value with changes in fair value being recognised in profit or loss.

(b) Forward currency contracts have been entered into to operationally hedge forecast purchases denominated in foreign currencies that are expected to occur at various dates within two (2) months from the end of the reporting period. The forward currency contracts have maturity dates that coincide with the expected occurrence of these transactions. The fair value of these components have been determined based on the difference between the contracted rate and the forward exchange rate as applicable to a contract of similar amount and maturity profile at the end of the reporting period.

8. DERIVATIVE ASSETS/(LIABILITIES) (continued)

(c) During the financial year, the Group recognised net loss of RM93,248 (2017: RM39,989; 2016: RM11,839; 2015: RM60,562) arising from fair value changes of derivative financial instruments. The fair value changes are attributable to changes in foreign exchange spot and forward rates. The methods and assumptions applied in determining the fair values of derivatives are disclosed in Note 23 to the combined financial statememts.

9. TRADE AND OTHER RECEIVABLES

	2015 RM	2016 RM	2017 RM	2018 RM
Trade				
- Third parties	53,763,918	60,667,130	55,557,624	49,650,245
- Related companies	179,408	249,540	358,973	155,004
	53,943,326	60,916,670	55,916,597	49,805,249
Less: Impairment losses				
- Third parties	-	(680,278)	(740,734)	(966,074)
	53,943,326	60,236,392	55,175,863	48,839,175
Non-trade				
Other receivables:				
- Third parties	357,464	104,514	1,535,550	712,982
- Corporate shareholder	1,050,000	-	-	-
Deposits	44,550	37,590	48,560	53,635
	1,452,014	142,104	1,584,110	766,617
Total trade and other receivables, net of prepayments	55,395,340	60,378,496	56,759,973	49,605,792
Prepayments	2,152,635	2,295,613	537,410	370,612
	57,547,975	62,674,109	57,297,383	49,976,404

(a) Trade and other receivables (excluding prepayments) are classified as loans and receivables and measured at amortised cost using the effective interest method in financial years 2015, 2016 and 2017 and classified as amortised cost in financial year 2018.

(b) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 14 to 90 days (2017: 14 to 90 days; 2016: 14 to 90 days; 2015: 14 to 90 days) from date of invoice. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

(c) All trade amounts owing by related companies are subject to normal trade credit terms.

(d) Amount owing by corporate shareholder of RM nil (2017: RM nil; 2016: RM nil; 2015: RM1,050,000) is unsecured, interest-free and payable upon demand in cash and cash equivalents.

(e) Included in prepayments of the Group is an amount of RM nil (2017: RM nil; 2016: RM1,627,691; 2015: RM1,186,500) made to supplier for purchase of raw materials.

9. TRADE AND OTHER RECEIVABLES (continued)

(f) The currency exposure profile of trade and other receivables (net of prepayments) is as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Ringgit Malaysia	55,243,107	60,296,602	56,669,361	49,586,985
Singapore Dollar	152,233	75,075	17,751	18,807
United States Dollar	-	6,819	72,861	-
	55,395,340	60,378,496	56,759,973	49,605,792

(g) The ageing analysis of trade receivables of the Group is as follows:

Application of MFRS 139

	2015 RM	2016 RM	2017 RM
Neither past due nor impaired	43,352,471	49,920,298	44,919,387
Past due, not impaired			
- 1 to 30 days past due	8,055,184	7,860,144	7,746,902
- 31 to 60 days past due	2,340,832	2,127,177	1,614,654
- 61 to 90 days past due	153,575	327,994	554,049
- More than 90 days	41,264	779	340,871
	10,590,855	10,316,094	10,256,476
Past due and impaired	-	680,278	740,734
	53,943,326	60,916,670	55,916,597

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy customers with good payment records with the Group. None of the trade receivables of the Group that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group have trade receivables amounting to RM10,256,476 (2016: RM10,316,094; 2015: RM10,590,855) that are past due at the end of the reporting period but not impaired. Trade receivables of the Group that are past due but not impaired are unsecured in nature and creditworthy reliable. The Group closely monitors the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

9. TRADE AND OTHER RECEIVABLES (continued)

(g) The ageing analysis of trade receivables of the Group is as follows (continued):

Receivables that are past due and impaired

Trade receivables of the Group that are past due and individually impaired at the end of each reporting period are as follows:

	Individually impaired		
	2015	**2016**	**2017**
	RM	**RM**	**RM**
Trade receivables, gross	-	680,278	740,734
Less: Impairment losses	-	(680,278)	(740,734)
	-	-	-

Application of MFRS 9

Impairment for trade receivables that do not contain a significant financing component are recognised based on the simplified approach using the lifetime expected credit losses.

The Group uses an allowance matrix to measure the expected credit loss of trade receivables from individual customers. Expected loss rates are calculated using the average historical bad debts write-offs rate and general rate based on the length of time invoices are overdue.

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised within administrative expenses in the combined statement of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment. At financial year end, the Group assesses whether there has been a significant increase in credit risk for financial assets by comparing the risk for default occurring over the expected life with the risk of default since initial recognition.

It requires management to exercise significant judgement in determining the probability of default by trade receivables and appropriate expected loss rates.

9. TRADE AND OTHER RECEIVABLES (continued)

(g) The ageing analysis of trade receivables of the Group is as follows (continued):

Lifetime expected loss provision for trade receivables as at 31 December 2018 are as follows:

Group	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 90 days past due**	**More than 120 days to 365 days past due**	**More than 365 days past due**	**Total RM**
Expected loss rate	0.62% to 0.90%	0.74% to 1.08%	0.89% to 1.30%	1.07% to 1.56%	30.00%	100.00%	
Gross carrying amount (RM)	40,167,823	6,687,509	1,010,853	1,492,630	123,526	322,908	49,805,249
Impairment (RM)							
Life time ECL allowance	267,775	55,132	10,235	15,419	145	-	348,706
Specific allowance	-	36,269	-	135,151	123,040	322,908	617,368
Total	267,775	91,401	10,235	150,570	123,185	322,908	966,074

During the financial year, the Company did not renegotiate the terms of any trade receivables.

(h) The reconciliation of movements in the impairment losses of trade receivables are as follows:

Application of MFRS 139

	2015 RM	**2016 RM**	**2017 RM**
At 1 January	185,997	-	680,278
Charge for the financial year	-	680,278	535,079
Reversal of impairment loss	(167,500)	-	-
Written off	(18,497)	-	(474,623)
At 31 December	-	680,278	740,734

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

The Directors specifically analyses historical bad debt, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of impairment of receivables. Where expectations differ from the original estimates, the differences would impact the carrying amount of receivables.

9. TRADE AND OTHER RECEIVABLES (continued)

(h) The reconciliation of movements in the impairment losses of trade receivables are as follows (continued):

Application of MFRS 9

Movements in the impairment allowance for trade receivables are as follows;

	Group 2018 RM
At 1 January under MFRS 139	740,734
Restated through opening retained earnings	307,301
Opening impairment loss of trade receivables in accordance with MFRS 9	1,048,035
Charge for the financial year	25,820
Reversal of impairment losses	(107,781)
	966,074
Bad debts written off	-
At 31 December	966,074

(i) No expected credit loss is recognised arising from other receivables as it is negligible.

(j) Information on financial risks of trade and other receivables is disclosed in Note 24 to the combined financial statements.

10. CASH AND BANK BALANCES

	2015 RM	2016 RM	2017 RM	2018 RM
Cash and bank balances	8,545,594	8,416,978	24,555,502	14,822,938

(a) Cash and bank balances are classified as loans and receivables, and measured at amortised cost using the effective interest method in financial years 2015, 2016 and 2017 and classified as amortised cost in financial year 2018.

(b) All cash and bank balances are denominated in RM.

(c) During the financial year ended 31 December 2016, the Royal Malaysian Customs Department ('RMCD') conducted a site visit and an investigation and issued letters and notices to Tashin Steel, effectively resulting in certain bank accounts being frozen and certain raw materials being withheld for the purposes of audit and investigation. In June 2016, Tashin Steel received a notice from RMCD that raw materials being withheld had been released. Subsequently in April 2017, Tashin Steel was notified by the respective banks that all relevant frozen bank accounts had been unfrozen and activated.

(d) Information on financial risks of cash and bank balances is disclosed in Note 24 to the combined financial statements.

(e) No expected credit losses were recognised arising from the deposits with financial institutions because the probability of default by these financial institutions were negligible.

32

11. BORROWINGS

	2015 RM	2016 RM	2017 RM	2018 RM
Current liabilities				
Secured				
Bankers' acceptances	26,379,000	18,546,000	17,921,000	4,830,000
Hire purchase (Note 11.1)	497,627	524,908	486,439	53,066
Term loans	1,803,929	1,414,200	689,287	155,216
Unsecured				
Bankers' acceptances	34,739,000	11,361,000	32,008,000	13,113,000
	63,419,556	31,846,108	51,104,726	18,151,282
Non-current liabilities				
Secured				
Hire purchase (Note 11.1)	915,250	600,766	114,327	61,261
Term loans	2,258,703	844,503	155,216	-
	3,173,953	1,445,269	269,543	61,261
Total borrowings				
Secured				
Bankers' acceptances	26,379,000	18,546,000	17,921,000	4,830,000
Hire purchase (Note 11.1)	1,412,877	1,125,674	600,766	114,327
Term loans	4,062,632	2,258,703	844,503	155,216
Unsecured				
Bankers' acceptances	34,739,000	11,361,000	32,008,000	13,113,000
	66,593,509	33,291,377	51,374,269	18,212,543

(a) Borrowings are classified as other financial liabilities initially measured at fair value net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method in financial years 2015, 2016 and 2017 and classified as amortised cost in financial year 2018.

(b) All borrowings are denominated in RM.

(c) The bank borrowings of the Group (other than hire purchase liabilities as further disclosed in Note 11.1 to the combined financial statements) are secured by means of:

(i) corporate guarantees by corporate shareholders of Tashin Steel; and

(ii) a first party legal charge over certain buildings and leasehold land of Tashin Steel as disclosed in Note 5(g).

(d) Information on financial risks of the borrowings and its remaining maturity is disclosed in Note 24 to the combined financial statements.

11. BORROWINGS (continued)

11.1 HIRE PURCHASE LIABILITIES

The hire purchase liabilities are repayable over the following periods:

	2015 RM	2016 RM	2017 RM	2018 RM
Minimum hire purchase payments:				
- Not later than one (1) year	562,752	574,004	507,854	58,500
- Later than one (1) year but not later than five (5) years	964,859	629,729	121,875	63,375
	1,527,611	1,203,733	629,729	121,875
Less: Future interest charges	(114,734)	(78,059)	(28,963)	(7,548)
Present value of hire purchase liabilities	1,412,877	1,125,674	600,766	114,327
Repayable as follows:				
- Current liabilities (Note 11)	497,627	524,908	486,439	53,066
- Non-current liabilities (Note 11)	915,250	600,766	114,327	61,261
	1,412,877	1,125,674	600,766	114,327

12. DEFERRED TAX

Deferred tax assets and liabilities are made up of the following:

	2015 RM	2016 RM	2017 RM	2018 RM
Balance as at 1 January	3,162,000	3,369,000	2,796,000	9,769,922
Recognised in profit or loss (Note 16)	207,000	(573,000)	218,042	396,622
Recognised in other comprehensive income	-	-	6,755,880	-
Balance as at 31 December	3,369,000	2,796,000	9,769,922	10,166,544
Presented after appropriate offsetting:				
Deferred tax liabilities	4,398,062	4,770,175	11,935,519	11,940,233
Deferred tax assets	(1,029,062)	(1,974,175)	(2,165,597)	(1,773,689)
	3,369,000	2,796,000	9,769,922	10,166,544

12. DEFERRED TAX (continued)

(a) Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profits would be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset would be reduced accordingly. When it becomes probable that sufficient taxable profits would be available, such reductions would be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(b) Deferred tax would be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax would be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the announcement of tax rates and tax laws by the Government in the annual budgets which have the substantive effect of actual enactment by the end of each reporting period.

12. DEFERRED TAX (continued)

(c) The components and movements of deferred tax liabilities and assets at the end of reporting period prior to offsetting are as follows:

	Property, plant and equipment RM	Revaluation reserve RM	Provisions RM	Total RM
At 1 January 2015	4,280,579	-	(1,118,579)	3,162,000
Recognised in profit or loss	117,483	-	89,517	207,000
At 31 December 2015	4,398,062	-	(1,029,062)	3,369,000
At 1 January 2016	4,398,062	-	(1,029,062)	3,369,000
Recognised in profit or loss	372,113	-	(945,113)	(573,000)
At 31 December 2016	4,770,175	-	(1,974,175)	2,796,000
At 1 January 2017	4,770,175	-	(1,974,175)	2,796,000
Recognised in profit or loss	491,422	(81,958)	(191,422)	218,042
Arising from revaluation	-	6,755,880	-	6,755,880
At 31 December 2017	5,261,597	6,673,922	(2,165,597)	9,769,922
At 1 January 2018	5,261,597	6,673,922	(2,165,597)	9,769,922
Recognised in profit or loss	206,925	(202,211)	391,908	396,622
At 31 December 2018	5,468,522	6,471,711	(1,773,689)	10,166,544

13. TRADE AND OTHER PAYABLES

	2015 RM	2016 RM	2017 RM	2018 RM
Trade payables				
Third parties	7,317,373	20,419,052	44,751,366	13,856,743
Related companies	33,092	9,118	9,333	30,589
	7,350,465	20,428,170	44,760,699	13,887,332
Other payables and accruals				
Other payables				
- Third parties	2,540,425	1,960,332	2,046,977	1,670,894
- Related companies	-	5,827,000	-	-
Accruals	2,438,867	4,353,020	6,036,447	2,506,351
	4,979,292	12,140,352	8,083,424	4,177,245
	12,329,757	32,568,522	52,844,123	18,064,577

(a) Trade and other payables are classified as other financial liabilities, and measured at amortised cost using the effective interest method in financial years 2015, 2016 and 2017 and classified as amortised cost in financial year 2018.

(b) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2017: 30 to 90 days; 2016: 30 to 90 days; 2015: 30 to 90 days) from date of invoice.

(c) Amounts owing to related companies are subject to normal credit terms.

(d) Included in accruals are the customs duties of RM nil (2017: RM2.86 million; 2016: RM3.21 million) payable to Royal Malaysian Customs Department ('RMCD') in relation to the RMCD investigation as disclosed in Note 10(c) to the financial statement.

(e) All trade and other payables are denominated in RM.

(f) Information on financial risks of trade and other payables is disclosed in Note 24 to the combined financial statements.

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2 7 MAY 2019
BDO PLT
(LLP0018825-LCA & AF 0206)
Chartered Accountants
Kuala Lumpur

14. REVENUE

	2015 RM	2016 RM	2017 RM	2018 RM
Revenue from contracts with customers				
Sale of goods	212,283,708	214,741,139	257,701,130	260,544,926

Recognition in financial years ended 31 December 2015, 31 December 2016 and 31 December 2017

Revenue is measured at the fair value of the consideration received or receivables, net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction would flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met.

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

Recognition in financial year ended 31 December 2018

Revenue from sale of goods is recognised at a point in time when the products has been transferred to the customer and coincides with the delivery of products and acceptance by customers.

Some contracts for the sale of goods provide customers with a right of return the goods within a specified period. Under MFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Company uses the expected value method to estimate goods that will not be returned.

There is no significant financing component in the revenue arising from sale of goods as the sales are made on the normal credit terms not exceeding twelve months.

15. PROFIT BEFORE TAX

Other than those disclosed elsewhere in the report, the profit before tax is arrived at:

	2015 RM	2016 RM	2017 RM	2018 RM
After charging:				
Auditors' remuneration	34,100	36,000	40,000	43,400
Directors' remuneration:				
- Fees	60,000	60,000	1,060,000	164,000
- Emoluments other than fees	101,248	105,952	129,696	463,200
- Share options granted under share options scheme	6,879	2,536	1,355	-
Interest expenses on:				
- Bank overdrafts	1	-	-	280
- Bankers' acceptances	2,523,618	2,083,638	2,104,664	2,730,752
- Revolving credit	34,717	25,929	-	111,912
- Term loans	275,631	161,883	81,069	25,071
- Hire purchase	3,960	79,176	49,096	21,253
Rental of:				
- Office equipment	-	440	3,005	3,780
- Equipment	1,722	1,812	1,872	1,872
- Hostel	86,160	84,660	86,580	116,210
- Forklift	6,840	17,460	4,900	36,400
Unrealised loss on foreign exchange	-	12,394	6,977	-
Loss on disposal of property, plant and equipment	-	-	-	7,572
And crediting:				
Gain on disposal of property, plant and equipment	107,200	42,023	23,085	-
Interest income*	85,310	105,022	168,621	190,631
Realised gain on foreign exchange	58,468	173,986	27,012	8,821
Unrealised gain on foreign exchange	9,153	-	-	3,403

*Interest income is recognised as it accrues, using the effective interest method.

16. TAX EXPENSE

	2015 RM	2016 RM	2017 RM	2018 RM
Current tax expense based on profit for the financial year:				
- Income tax	415,000	2,913,000	5,694,000	3,357,000
- Under/(Over) provision in prior years	204,878	61,294	43,899	(205,447)
	619,878	2,974,294	5,737,899	3,151,553
Deferred tax (Note 12)				
- Relating to origination and reversal of temporary differences	374,000	(558,000)	245,000	619,833
- Relating to revaluation reserve	-	-	(81,958)	(202,211)
- (Over)/Under provision in prior years	(167,000)	(15,000)	55,000	(21,000)
	207,000	(573,000)	218,042	396,622
	826,878	2,401,294	5,955,941	3,548,175

(a) Income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised, outside profit or loss, either in other comprehensive income or directly in equity.

(b) Malaysian income tax is calculated at the statutory tax rate of 24% (2017: 24%; 2016: 24%; 2015: 25%) of the estimated taxable profit for the fiscal year.

(c) The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate of the Group is as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Profit before tax	4,987,394	14,584,784	21,670,747	14,828,962
Tax at Malaysian statutory tax rate at 24% (2017: 24%; 2016: 24%; 2015: 25%)	1,246,849	3,500,348	5,200,979	3,558,951
Tax effects in respect of:				
- Non-allowable expenses	191,424	183,252	797,549	480,769
- Tax incentives and allowances	(634,535)	(1,328,600)	(59,528)	(62,887)
- Deferred tax on revaluation reserve	-	-	(81,958)	(202,211)
- Reduction of tax rate	(14,738)	-	-	-
	789,000	2,355,000	5,857,042	3,774,622
Under/(Over) provision of tax expense in prior years	204,878	61,294	43,899	(205,447)
(Over)/Under provision of deferred tax in prior years	(167,000)	(15,000)	55,000	(21,000)
	826,878	2,401,294	5,955,941	3,548,175

17. EARNINGS PER SHARE

	2015	2016	2017	2018
Profit attributable to owners of the parent (RM)	4,160,516	12,183,490	15,714,806	11,280,787
Expected number of shares upon completion of the Listing (unit)	348,991,000	348,991,000	348,991,000	348,991,000
Earnings per share (Sen):				
- Basic	1.19	3.49	4.50	3.23
- Diluted	1.19	3.49	4.50	3.23

Basic earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares in issue.

The Group has not issued any dilutive potential shares and hence, the diluted earnings per share equal to the basic earnings per share.

18. DIVIDENDS

	2015 RM	2016 RM	2017 RM	2018 RM
In respect of current financial year:				
- first interim dividend	1,000,000	1,000,000	2,000,000	-
- second interim dividend	-	1,000,000	4,000,000	-
In respect of previous financial year:				
- final dividend	-	-	2,000,000	-
	1,000,000	2,000,000	8,000,000	-

(a) Dividend income is recognised when the right to receive payment is established.

(b) Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

(c) Single tier first interim cash dividend amounting to RM1,000,000 for the financial year ended 31 December 2015 was declared by Directors of Tashin Steel on 31 July 2015 and paid on 22 December 2015.

(d) Single tier first interim cash dividend amounting to RM1,000,000 for the financial year ended 31 December 2016 was declared by Directors of Tashin Steel on 3 August 2016 and paid on 10 August 2016.

18. DIVIDENDS (continued)

(e) Single tier second interim cash dividend amounting to RM1,000,000 for the financial year ended 31 December 2016 was declared by Directors of Tashin Steel on 11 October 2016 and paid on 17 October 2016.

(f) Single tier final cash dividend amounting to RM2,000,000 for the financial year ended 31 December 2016 was approved on the 18th Annual General Meeting of Tashin Steel on 27 April 2017.

(g) Single tier interim cash dividend amounting to RM2,000,000 for the financial year ended 31 December 2017 was declared by Directors of Tashin Steel on 26 July 2017 and paid on 15 August 2017.

(h) Single tier interim cash dividend amounting to RM4,000,000 for the financial year ended 31 December 2017 was declared by Directors of Tashin Steel on 8 December 2017 and paid on 22 December 2017.

(i) The Directors of Tashin Steel recommended a final cash dividend of 12.5 sen per ordinary share, amounting to RM2,500,000 in respect of the financial year ended 31 December 2018 and paid on 11 March 2019.

19. OPERATING SEGMENTS

The Group has arrived at three (3) reportable segments that are organised and managed separately based on information reported internally to the Management and the Board of Directors. The reportable segments are summarised as follows:

Processing	:	Processing (slitting and shearing) of steel coils into slit coils and steel sheets;
Manufacturing	:	Manufacturing of steel products comprising, steel pipes, flat bars, square bars, expanded metals, checkered plates and C Purlins; and
Trading	:	Trading of steel products including steel plates, steel pipes, round bars, angle bars and wire mesh.

The accounting policies of operating segments are the same as those described in this report. The Group evaluates performance on the basis of profit or loss from operations before tax.

Inter-segment revenue is priced along the same lines as sales to external customers and is eliminated in the consolidated financial statements. These policies have been applied consistently throughout the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018.

Segment assets exclude tax assets and goodwill. Segment liabilities exclude tax liabilities. Even though borrowings arise from financing activities rather than operating activities, they are allocated to the segments based on relevant factors. Details are provided in the reconciliations from segment assets and liabilities to the position of the Group.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one (1) period for each reportable segment.

19. OPERATING SEGMENTS (continued)

2015	Processing RM	Manufacturing RM	Trading RM	Total RM
Revenue				
Total revenue	192,614,752	46,982,274	6,784,294	246,381,320
Inter-segment revenue	(31,618,193)	(1,911,111)	(568,308)	(34,097,612)
Revenue from external customers	160,996,559	45,071,163	6,215,986	212,283,708
Finance costs	(2,549,795)	(214,913)	(73,219)	(2,837,927)
Interest income	80,036	3,123	2,151	85,310
Net finance expense	(2,469,759)	(211,790)	(71,068)	(2,752,617)
Depreciation	(1,714,734)	(832,089)	(32,640)	(2,579,463)
Segment profit before income tax	3,594,367	1,124,882	268,145	4,987,394
Tax expense	(620,477)	(160,158)	(46,243)	(826,878)
Other material non-cash items:				
Fair value adjustment on derivative asset	60,562	-	-	60,562
Gain on disposal of property, plant and equipment	(1,923)	(105,277)	-	(107,200)
Inventories written down	567,383	67,521	17,096	652,000
Reversal of impairment losses on trade receivables	(157,146)	(6,132)	(4,222)	(167,500)
Capital expenditure	2,089,309	30,984	15,196	2,135,489
Segment assets	**155,379,321**	**28,505,868**	**3,968,840**	**187,854,029**
Segment liabilities	**61,062,856**	**15,471,099**	**2,389,311**	**78,923,266**

19. OPERATING SEGMENTS (continued)

2016	**Processing RM**	**Manufacturing RM**	**Trading RM**	**Total RM**
Revenue				
Total revenue	176,049,021	56,070,862	4,780,823	236,900,706
Inter-segment revenue	(20,036,008)	(1,599,482)	(524,077)	(22,159,567)
Revenue from external customers	156,013,013	54,471,380	4,256,746	214,741,139
Finance costs	(1,930,989)	(370,501)	(49,136)	(2,350,626)
Interest income	98,179	4,538	2,305	105,022
Net finance expense	(1,832,810)	(365,963)	(46,831)	(2,245,604)
Depreciation	(1,701,022)	(929,197)	(25,339)	(2,655,558)
Segment profit before income tax	8,205,200	5,715,816	663,768	14,584,784
Tax expense	(1,153,212)	(1,154,782)	(93,300)	(2,401,294)
Other material non-cash items:				
Impairment losses on trade and other receivables	583,153	82,681	14,444	680,278
Fair value adjustment on derivative asset	11,839	-	-	11,839
Gain on disposal of property, plant and equipment	(40,124)	(1,899)	-	(42,023)
Inventories written down	739,621	52,762	17,617	810,000
Capital expenditure	891,348	964,214	33,395	1,888,957
Segment assets	**148,109,479**	**32,469,565**	**5,540,614**	**186,119,658**
Segment liabilities	**46,474,188**	**17,850,867**	**1,534,844**	**65,859,899**

19. OPERATING SEGMENTS (continued)

2017	Processing RM	Manufacturing RM	Trading RM	Total RM
Revenue				
Total revenue	209,214,462	68,084,464	6,686,545	283,985,471
Inter-segment revenue	(19,106,597)	(6,969,946)	(207,798)	(26,284,341)
Revenue from external customers	190,107,865	61,114,518	6,478,747	257,701,130
Finance costs	(1,870,175)	(309,506)	(55,148)	(2,234,829)
Interest income	154,214	10,098	4,309	168,621
Net finance expense	(1,715,961)	(299,408)	(50,839)	(2,066,208)
Depreciation	(2,171,231)	(989,996)	(43,402)	(3,204,629)
Segment profit before income tax	15,000,886	5,829,161	840,700	21,670,747
Tax expense	(4,296,804)	(1,410,819)	(248,318)	(5,955,941)
Other material non-cash items:				
Impairment losses on trade receivables	248,435	275,692	10,952	535,079
Fair value adjustment on derivative assets	37,531	2,458	-	39,989
Gain on disposal of property, plant and equipment	(21,666)	(1,419)	-	(23,085)
Reversal of inventories written down	(222,686)	(30,314)		(253,000)
Reversal of impairment losses on property, plant and equipment	(8,252)	-	-	(8,252)
Capital expenditure	1,301,228	85,208	36,359	1,422,795
Segment assets	**211,918,810**	**42,769,845**	**6,085,242**	**260,773,897**
Segment liabilities	**74,632,907**	**26,965,647**	**2,652,541**	**104,251,095**

19. OPERATING SEGMENTS (continued)

2018	Processing RM	Manufacturing RM	Trading RM	Total RM
Revenue				
Total revenue	224,955,369	85,805,330	1,572,641	312,333,340
Inter-segment revenue	(42,464,820)	(9,173,100)	(150,494)	(51,788,414)
Revenue from external customers	182,490,549	76,632,230	1,422,147	260,544,926
Finance costs	(2,483,533)	(389,897)	(15,838)	(2,889,268)
Interest income	175,683	13,866	1,082	190,631
Net finance expense	(2,307,850)	(376,031)	(14,756)	(2,698,637)
Depreciation	(2,618,235)	(1,039,421)	(12,249)	(3,669,905)
Segment profit before income tax	7,617,029	7,171,961	39,972	14,828,962
Tax expense	(1,843,311)	(1,683,950)	(20,914)	(3,548,175)
Other material non-cash items:				
Impairment losses on trade receivables	23,795	1,878	147	25,820
Fair value adjustment on derivative liabilities	86,427	6,821	-	93,248
Loss on disposal of property, plant and equipment	6,978	551	43	7,572
Reversal of impairment losses on trade receivables	(6,648)	(100,814)	(319)	(107,781)
Inventories written down	1,294,942	230,058	-	1,525,000
Capital expenditure	1,123,008	303,090	7,513	1,433,611
Segment assets	**166,643,950**	**35,398,516**	**928,389**	**202,970,855**
Segment liabilities	**26,937,679**	**9,210,900**	**254,492**	**36,403,071**

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

Revenue	2015 RM	2016 RM	2017 RM	2018 RM
Total revenue for reportable segment	246,381,320	236,900,706	283,985,471	312,333,340
Elimination of inter-segmental revenue	(34,097,612)	(22,159,567)	(26,284,341)	(51,788,414)
Revenue of the Group per statements of profit or loss and other comprehensive income	212,283,708	214,741,139	257,701,130	260,544,926

19. OPERATING SEGMENTS (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows (continued):

Profit for the year	2015 RM	2016 RM	2017 RM	2018 RM
Total profit for reportable segment	4,987,394	14,584,784	21,670,747	14,828,962
Less: tax expense	(826,878)	(2,401,294)	(5,955,941)	(3,548,175)
Profit for the financial year per statements of profit or loss and other comprehensive income	4,160,516	12,183,490	15,714,806	11,280,787

Assets	2015 RM	2016 RM	2017 RM	2018 RM
Total assets for reportable segments	187,854,029	186,119,658	260,773,897	202,970,855
Current tax assets	61,500	-	-	-
Total assets per statements of financial position	187,915,529	186,119,658	260,773,897	202,970,855

Liabilities	2015 RM	2016 RM	2017 RM	2018 RM
Total liabilities for reportable segments	78,923,266	65,859,899	104,251,095	36,403,071
Deferred tax liabilities	3,369,000	2,796,000	9,769,922	10,166,544
Current tax liabilities	105,800	1,762,806	1,943,500	618,374
Total liabilities per statements of financial position	82,398,066	70,418,705	115,964,517	47,187,989

Geographical information

The business activities of the Group are predominantly located in Malaysia and as such segment reporting by geographical location is not presented.

Major customers

The Group does not have major customers with revenue equal to or more than ten percent (10%) of the revenue of the Group.

20. RELATED PARTIES DISCLOSURES

(a) Identities of related parties

Parties are considered to be related to the Group if the Group has 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 where the Group and the party are subject to common control or common significant influence. Related parties could be individuals or other entities.

The Group has controlling related party relationship with its corporate shareholder, associate of corporate shareholder and related companies.

(b) Significant related party transactions

In addition to the transactions and balances detailed elsewhere in the report, the Group had the following transactions with its related parties during the financial years:

	2015 RM	2016 RM	2017 RM	2018 RM
Transactions with corporate shareholders:				
Prestar Resources Berhad				
Dividend paid	510,000	1,020,000	4,080,000	-
Formula Naga Sdn. Bhd.				
Dividend paid	490,000	980,000	3,920,000	-
Transactions with related companies:				
Prestar Precision Tube Sdn. Bhd.				
Purchase of goods	185,854	3,106	-	701,975
Sales of goods	(813,120)	(102,927)	(133,796)	(214,609)
Prestar Manufacturing Sdn. Bhd.				
Sales of goods	(158,102)	(192,245)	(9,474)	(6,911)
Prestar Storage System Sdn. Bhd.				
Sales of goods	(195,481)	(323,240)	(330,477)	(846,458)
Dai Dong Steel Sdn. Bhd.				
Interest received	(670)	(418)	-	-
Sales of goods	(3,702,667)	(7,468,262)	(9,778,031)	(765,287)
Purchase of goods	-	-	2,945	-
Slitting service	-	-	(3,012)	(24,729)
Prestar Engineering Sdn. Bhd.				
Purchase of goods	2,494	7,789	28,944	125,937
Prestar Galvanising Sdn. Bhd.				
Purchase of goods	82,542	40,616	49,046	41,324
Prestar Marketing Sdn. Bhd.				
Purchase of goods	-	-	3,055	-

20. RELATED PARTIES DISCLOSURES

(b) Significant related party transactions (continued)

In addition to the transactions and balances detailed elsewhere in the report, the Group had the following transactions with its related parties during the financial years(continued):

	2015 RM	2016 RM	2017 RM	2018 RM
Transaction with associate of corporate shareholder:				
POSCO-MKPC Sdn. Bhd.				
Sales	-	-	(19,517)	-
Slitting service - purchases	-	-	-	3,847
Litat Hardware Sdn. Bhd.				
Sales of goods	(404,777)	(1,253,410)	(2,331,858)	(2,503,102)

(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 directors (whether executive or otherwise) of the Group.

The remuneration of directors and key management personnel of the Group during the financial years was as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Short term employee benefits	872,950	1,006,710	2,388,900	1,936,418
Contribution to defined contribution plan	126,090	143,251	195,568	190,419
Share options granted under share options scheme	25,231	9,302	16,111	-
	1,024,271	1,159,263	2,600,579	2,126,837

21. COMMITMENTS

(a) Operating lease commitments

The Group had entered into non-cancellable lease agreements for premises, resulting in future rental commitments which can, subject to certain terms in the agreements, be revised annually based on prevailing market rates.

The lease terms do not contain restrictions on the activities of the Group and of the concerning dividends or additional debt. The Group has aggregate future minimum lease commitment as at the end of each reporting period as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Not later than one (1) year	55,730	42,435	55,585	61,830
Later than one (1) year and not later than five (5) years	3,250	-	7,760	3,800
	58,980	42,435	63,345	65,630

(b) Capital commitments

	2015 RM	2016 RM	2017 RM	2018 RM
Capital expenditure in respect of purchase of property, plant and equipment:				
- Approved and contracted for	-	120,286	-	-

22. EMPLOYEE BENEFITS

	2015 RM	2016 RM	2017 RM	2018 RM
Wages, salaries and bonuses	7,387,434	8,238,106	9,295,139	9,870,646
Contribution to defined contribution plans	593,289	690,532	808,112	780,698
Other employee benefits	448,486	387,723	605,283	672,146
Share options granted under share options scheme	113,509	36,463	46,096	-
	8,542,718	9,352,824	10,754,630	11,323,490

Included in the employee benefits of the Group are Directors' emoluments amounting to RM463,200 (2017: RM129,696; 2016: RM105,952; 2015: RM101,248).

23. FINANCIAL INSTRUMENTS

(a) Capital management

The primary objective of the capital management of the Group are to ensure that the Group would be able to continue as a going concern whilst maximising return to shareholders through the optimisation of the debt and equity ratio. The overall strategy of the the Group remains unchanged from that in financial year ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018.

The Group monitors capital on the basis of its gearing ratio which is total external debts divided by shareholders' funds. External debts comprise borrowings. Shareholders' funds represent total equity.

	2015 RM	2016 RM	2017 RM	2018 RM
Borrowings (Note 11)	66,593,509	33,291,377	51,374,269	18,212,543
Total equity	105,517,463	115,700,953	144,809,380	155,782,866
Gearing ratio	0.63	0.29	0.35	0.12

The Group is not subject to any other externally imposed capital requirements.

(b) Financial instruments

	2015 RM Loans and receivables	2016 RM Loans and receivables	2017 RM Loans and receivables	2018 RM Amortised costs
Financial assets				
Trade and other receivables, net of prepayments	55,395,340	60,378,496	56,759,973	49,605,792
Cash and bank balances	8,545,594	8,416,978	24,555,502	14,822,938
	63,940,934	68,795,474	81,315,475	64,428,730

	2015 RM	2016 RM	2017 RM	2018 RM
	<-----Fair value through profit or loss----->			
Financial assets				
Derivative assets/(liabilities)	19,125	7,286	(32,703)	(125,951)

23. FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments (continued)

	2015 RM Other financial liabilities	2016 RM Other financial liabilities	2017 RM Other financial liabilities	2018 RM Amortised costs
Financial liabilities				
Borrowings	66,593,509	33,291,377	51,374,269	18,212,543
Trade and other payables	12,329,757	32,568,522	52,844,123	18,064,577
	78,923,266	65,859,899	104,218,392	36,277,120

(c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

(i) Financial instruments that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value

The carrying amounts of financial assets and liabilities, such as trade and other receivables, trade and other payables and borrowings of the Group are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

The carrying amounts of the current position of borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

The fair value of these borrowings has been determined using discounted cash flows technique. The discount rates used are based on the current market rate available for similar borrowings.

(ii) Obligations under finance lease

The fair values of these financial instruments are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period.

(iii) Derivatives

The fair value of forward foreign currency contracts is determined using forward exchange market rates at the end of the financial year.

The fair value of a forward foreign exchange contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and the forward exchange rate as at the end of the reporting period applied to a contract of similar amount and maturity profile.

23. FINANCIAL INSTRUMENTS (continued)

(d) Fair value hierarchy

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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2 7 MAY 2019
BDO PLT
(LLP0018825-LCA & AF 0206)
Chartered Accountants
Kuala Lumpur

23. FINANCIAL INSTRUMENTS (continued)

(d) Fair value hierarchy (continued)

The following tables set out the financial instruments carried at fair value after initial recognition and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the combined statements of financial position.

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	Total fair value RM	Carrying amount RM
2015										
Financial assets at fair value through profit or loss										
- Forward currency contracts	-	-	19,125	19,125	-	-	-	-	19,125	19,125
2016										
Financial assets at fair value through profit or loss										
- Forward currency contracts	-	-	7,286	7,286	-	-	-	-	7,286	7,286
2017										
Financial assets at fair value through profit or loss										
- Forward currency contracts	-	-	(32,703)	(32,703)	-	-	-	-	(32,703)	(32,703)
2018										
Financial assets at fair value through profit or loss										
- Forward currency contracts	-	-	(125,951)	(125,951)	-	-	-	-	(125,951)	(125,951)

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23. FINANCIAL INSTRUMENTS (continued)

(d) Fair value hierarchy (continued)

The following tables set out the financial instruments carried at fair value after initial recognition and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the combined statements of financial position (continued).

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	Total fair value RM	Carrying amount RM
2015										
Other financial liabilities										
- Hire purchase liabilities	-	-	-	-	-	1,337,256	-	1,337,256	1,337,256	1,412,877
2016										
Other financial liabilities										
- Hire purchase liabilities	-	-	-	-	-	1,070,552	-	1,070,552	1,070,552	1,125,674
2017										
Other financial liabilities										
- Hire purchase liabilities	-	-	-	-	-	577,400	-	577,400	577,400	600,766
2018										
Amortised costs										
- Hire purchase liabilities	-	-	-	-	-	108,470	-	108,470	108,470	114,327

23. FINANCIAL INSTRUMENTS (continued)

(d) Fair value hierarchy (continued)

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

	2015 RM	2016 RM	2017 RM	2018 RM
Financial assets				
Balance as at 1 January	79,687	19,125	7,286	(32,703)
Gains and losses recognised in profit or loss				
- Other expenses (unrealised)	19,125	7,286	(32,703)	(125,951)
- Other expenses (realised)	(79,687)	(19,125)	(7,286)	32,703
Balance as at 31 December	19,125	7,286	(32,703)	(125,951)

(e) The following table shows the sensitivity analysis for the Level 3 fair value measurements.

	2015 RM	2016 RM	2017 RM	2018 RM
Profit after tax				
Foreign currency rate				
- Increase by 3% (2017: 3% 2016: 3%; 2015: 3%)	72,833	80,309	105,038	335,648
- Decrease by 3% (2017: 3% 2016: 3%; 2015: 3%)	(72,833)	(80,309)	(105,038)	(335,648)

(f) The Group has established policies and procedures in respect of the measurement of fair values of financial instruments. The Directors regularly review significant unobservable inputs and valuation adjustments.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial risk management objective of the Group is to optimise value creation for shareholders whilst minimising the potential adverse impact arising from credit risk, liquidity risk and cash flow risk, interest rate risk and foreign currency risk.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Directors review and agree policies for managing each of these risks and these are summarised below:

(a) Credit risk

Cash deposits and trade receivables could give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. In order to manage risk, it is the policy of the Group to monitor the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The primary exposure of the Group to credit risk arises through its trade receivables. The trading terms of the Group with their customers are mainly on credit. The credit period is generally for a period of 14 days, extending up to 90 days for major customers. Each customer has a maximum credit limit and the Group seeks to minimise and monitor the credit risk via strictly limiting the associations to business customers with high creditworthiness. The Group and the Company have bought the collateral insurance for turnover of RM70,000,000 in the current financial year ended 31 December 2018 to minimise the credit risk. Trade receivables are monitored on an ongoing basis through the management reporting procedures of the Group.

Exposure to credit risk

At the end of each reporting period, the maximum exposure of the Group to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Information regarding trade and other receivables is disclosed in Note 9 to the combined financial statements. The Group does not have any significant concentration of credit risk related to any individual customers or counterparty as at the end of the reporting period.

(b) Liquidity and cash flow risk

The Group actively manages their debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In executing its liquidity risk management strategy, the Group measures and forecasts their cash commitments and maintain a level of cash and cash equivalents deemed adequate to finance the activities of the Group.

Prudent liquidity risk management is applied by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining the flexibility in funding by keeping committed credit lines available.

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24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity and cash flow risk (continued)

The table below summarises the maturity profile of the liabilities of the Group at the end of each reporting period based on contractual undiscounted repayment obligations:

	On demand or within one year RM	One to five years RM	Total RM
2015			
Financial liabilities			
Borrowings	63,645,120	3,333,282	66,978,402
Trade and other payables	12,329,757	-	12,329,757
Total undiscounted financial liabilities	75,974,877	3,333,282	79,308,159
2016			
Financial liabilities			
Borrowings	31,895,204	1,474,232	33,369,436
Trade and other payables	32,568,522	-	32,568,522
Total undiscounted financial liabilities	64,463,726	1,474,232	65,937,958
2017			
Financial liabilities			
Borrowings	51,126,141	277,091	51,403,232
Trade and other payables	52,844,123	-	52,844,123
Total undiscounted financial liabilities	103,970,264	277,091	104,247,355
2018			
Financial liabilities			
Borrowings	18,156,716	63,375	18,220,091
Trade and other payables	18,064,577	-	18,064,577
Total undiscounted financial liabilities	36,221,293	63,375	36,284,668

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of the Group would fluctuate because of changes in market interest rates.

The income and operating cash flows of the Group are independent of changes in market interest rates. Interest rate exposure arises mainly from the bank borrowings of the Group and is managed through effective negotiation with financial institutions for best available rates.

Sensitivity analysis for interest rate risk

	2015 RM	2016 RM	2017 RM	2018 RM
Profit after tax				
- increase by 1%	(489,000)	(244,000)	(386,000)	(138,000)
- decrease by 1%	489,000	244,000	386,000	138,000

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rate ('WAEIR') as at the end of each reporting period and the remaining maturities of the financial instruments of the Group that are exposed to interest rate risk:

	WAEIR %	Within 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	Total RM
2015							
Fixed rate							
Hire purchase liabilities	5.14	497,627	478,531	436,719	-	-	1,412,877
Floating rate							
Bankers' acceptances	4.70	61,118,000	-	-	-	-	61,118,000
Term loans	5.19	1,803,929	1,414,200	689,287	155,216	-	4,062,632
2016							
Fixed rate							
Hire purchase liabilities	5.40	524,908	486,439	53,066	56,410	4,851	1,125,674
Floating rate							
Bankers' acceptances	4.66	29,907,000	-	-	-	-	29,907,000
Term loans	5.15	1,414,200	689,287	155,216	-	-	2,258,703

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Interest rate risk (continued)

The following tables set out the carrying amounts, the weighted average effective interest rate ('WAEIR') as at the end of each reporting period and the remaining maturities of the financial instruments of the Group that are exposed to interest rate risk (continued):

	WAEIR %	Within 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	Total RM
2017							
Fixed rate							
Hire purchase liabilities	5.93	486,439	53,066	56,410	4,851	-	600,766
Floating rate							
Bankers' acceptances	4.65	49,929,000	-	-	-	-	49,929,000
Term loans	5.13	689,287	155,216	-	-	-	844,503
2018							
Fixed rate							
Hire purchase liabilities	6.26	53,066	56,410	4,851	-	-	114,327
Floating rate							
Bankers' acceptances	4.77	17,943,000	-	-	-	-	17,943,000
Term loans	5.36	155,216	-	-	-	-	155,216

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in foreign exchange rates.

Transactional currency exposures mainly arise from transactions that are denominated in currencies other than functional currency of the operating entity.

Transactional currency exposures of the Group mainly arise from transactions entered in currencies other than their functional currency. The Group enters into forward foreign currency contracts for their foreign currency exposures and the management monitors these exposures on an ongoing basis.

During the previous financial year, the Group entered into foreign currency forward contracts to manage exposures to currency risk for trade payables which are denominated in a currency other than the functional currency of the Group.

The notional amount and maturity date of the forward foreign exchange contracts outstanding as at the end of each reporting period are as follows:

	Currency	Contract amount in foreign currency	RM equivalent	Maturities within
2015				
Forward contracts				
Used to hedge trade payables	USD	750,000	3,217,875	One (1) month
2016				
Forward contracts				
Used to hedge trade payables	USD	783,467	3,515,024	One (1) month
2017				
Forward contracts				
Used to hedge trade payables	USD	1,129,152	4,639,617	One (1) to two (2) months
2018				
Forward contracts				
Used to hedge trade payables	USD	3,547,814	14,847,362	One (1) to two (2) months

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Kuala Lumpur

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Foreign currency risk (continued)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity analysis of the profit after tax of the Group to a reasonably possible change in Singapore Dollar ('SGD') and United States Dollar ('USD') exchange rates against the functional currency of the Group, with all other variables held constant.

	2015 RM Profit after tax	2016 RM Profit after tax	2017 RM Profit after tax	2018 RM Profit after tax
SGD				
- strengthen by 3%	+3,000	+2,000	+405	+429
- weaken by 3%	-3,000	-2,000	-405	-429
USD				
- strengthen by 3%	-	+150	+1,590	-
- weaken by 3%	-	-150	-1,590	-

25. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) Acquisition of subsidiary

For the purpose of the initial public offering exercise, the Company entered into a conditional share sale agreement ("SSA") on 9 January 2018 (which was subsequently amended via the signing of a supplemental conditional share sale agreement dated 17 April 2018 and a letter of extension dated 8 January 2019) for the proposed acquisition of 100% equity interest in Tashin Steel Sdn. Bhd. ("TSSB") from Prestar Resources Berhad and Formula Naga Sdn. Bhd. ("Prestar" and "Formula Naga") for an aggregate consideration of RM144,830,999 to be satisfied via the issuance of 289,661,998 new Shares to the existing shareholders.

The total purchase consideration of RM144,830,999 for the proposed acquisition was arrived after taking into consideration the audited net assets of TSSB as at 31 December 2017 of RM144,831,193.

The SSA is conditional upon the fulfilment of the conditions precedent.

The Company is in the midst of satisfying the conditions precedent to complete the acquisition.

(b) Initial public offering

On 20 June 2018, the Company had submitted the initial listing application to Bursa Securities in relation to the admission of Company to the Official List and the listing of and quotation for the entire enlarged share capital of the Company on the ACE Market of Bursa Securities and application to the Securities Commission Malaysia (Equity Compliance Unit) in relation to the Bumiputera Equity Requirements for Public Listed Companies.

Bursa Securities had, vide its letter dated 12 December 2018, approved the admission to the Official List and listing of and quotation of the entire enlarged share capital of the Company comprising 348,991,000 shares on ACE Market of Bursa Securities.

26. SIGNIFICANT EVENT SUBSEQUENT TO THE FINANCIAL YEAR

On 8 January 2019, the Company, Prestar and Formula Naga mutually agreed to extend the last date to fulfil the conditions precedent as set out in the share sale agreement by a period of 6 months up to 8 July 2019.

27. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs

27.1 New MFRSs adopted during the financial year ended 31 December 2018

The Group adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the financial year:

Title	Effective Date
Amendments to MFRS 1 *Annual Improvements to MFRS Standards 2014 - 2016 Cycle*	1 January 2018
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Clarification to MFRS 15	1 January 2018
MFRS 9 *Financial Instruments (IFRS as issued by IASB in July 2014)*	1 January 2018
Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to MFRS 128 *Annual Improvements to MFRS Standards 2014 - 2016 Cycle*	1 January 2018
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to MFRS 140 *Transfers of Investment Property*	1 January 2018
Amendments to MFRS 4 *Applying MFRS 9* Financial Instruments *with MFRS 4* Insurance Contracts	See MFRS 4 Paragraphs 46 and 48

Adoption of the above Standards did not have any material effect on the financial performance or position of the Group except for the adoption of MFRS 9 described in the following section.

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Kuala Lumpur

27. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year ended 31 December 2018 (continued)

(a) MFRS 9 *Financial Instruments*

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, encompassing all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied MFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under MFRS 139. Differences arising from the adoption of MFRS 9 have been recognised directly in retained earnings and other components of equity.

(i) Classification of financial assets and financial liabilities

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

- Those to be measured at amortised cost; and
- Those to be measured subsequently at fair value either through other comprehensive income or through profit or loss.

The following summarises the key changes:

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

MFRS 9 largely retains the existing requirements in MFRS 139 for the classification of financial liabilities.

However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- Amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- The remaining amount of change in the fair value is presented in profit or loss.

27. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year ended 31 December 2018 (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(ii) Impairment of financial assets

The adoption of MFRS 9 has fundamentally changed the accounting for impairment losses for financial assets of the Group by replacing the incurred loss approach of MFRS 139 with a forward-looking expected credit loss approach. MFRS 9 requires the Group to record an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss.

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

Impairment for trade receivables and contract assets that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime expected credit losses.

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised within administrative expenses in the combined statement of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

Impairment for receivables from related parties are recognised based on the general approach within MFRS 9 using the forward looking expected credit loss model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

27. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

27.1 New MFRSs adopted during the financial year ended 31 December 2018 (continued)

(a) MFRS 9 *Financial Instruments* (continued)

(iii) Classification and measurement

The following table summarises the reclassification and measurement of the financial assets and financial liabilities of the Group as at 1 January 2018:

	Classification		Carrying amount	
	Existing under MFRS 139	New under MFRS 9	Existing under MFRS 139	New under MFRS 9
			RM	RM
Financial assets				
Trade and other receivables, net of prepayments	L&R	AC	56,759,973	56,452,672
Cash and bank balances	L&R	AC	24,555,502	24,555,502
Financial liabilities				
Trade and other payables	OFL	AC	52,844,123	52,844,123
Borrowings	OFL	AC	51,374,269	51,374,269

The following tables are reconciliations of the carrying amount of the statement of financial position of the Group from MFRS 139 to MFRS 9 as at 1 January 2018:

	Existing under MFRS 139		New under MFRS 9
	Carrying amount as at 31 December 2017	Remeasurement	Carrying amount as at 1 January 2018
	RM	RM	RM
Trade and other receivables:			
Opening balance	57,297,383	-	57,297,383
Increase in impairment loss	-	(307,301)	(307,301)
Total trade and other receivables	57,297,383	(307,301)	56,990,082
Retained earnings:			
Opening balance	103,675,294	-	103,675,294
Increase in impairment loss for trade and other receivables	-	(307,301)	(307,301)
Total retained earnings	103,675,294	(307,301)	103,367,993

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Kuala Lumpur

27. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

27.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2019

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been early adopted by the Group:

Title	Effective Date
MFRS 16 *Leases*	1 January 2019
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to MFRS 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to MFRS 3 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 11 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 112 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 123 *Annual Improvements to MFRS Standards 2015 - 2017 Cycle*	1 January 2019
Amendments to MFRS 119 *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to *References to the Conceptual Framework in MFRS Standards*	1 January 2020
Amendments to MFRS 3 *Definition of a Business*	1 January 2020
Amendments to MFRS 101 and MFRS 108 *Definition of Material*	1 January 2020
MFRS 17 *Insurance Contracts*	1 January 2021
Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred

The Group does not expect the adoption of the above Standards to have a significant impact on the financial statements, except for MFRS 16 as described in the following sections.

<u>MFRS 16 *Leases*</u>

MFRS 16 supersedes MFRS 117 *Leases* and its related interpretations.

MFRS 16 introduces a new model for lessee accounting which eliminates the distinction between finance and operating leases for lessees. MFRS 16 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months. Off-balance sheet lease commitment disclosed previously is required to be accounted based on rights and obligations approach under MFRS 16. For lessors, MFRS 16 requires enhanced disclosure on the information about lessors' risk exposure, particularly to residual value risk.

The Group will adopt MFRS 16 in accordance with the transition provisions where comparative information will not be restated and the cumulative effect of initially applying MFRS 16 will be adjusted to the opening balance of retained profits.

27. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

27.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2019 (continued)

<u>MFRS 16 *Leases (continued)*</u>

The Group has carried out an initial assessment on adoption of MFRS 16. The adoption of this standard is not expected to have any material financial impact to the Group. Summarised below is the estimated impact of the initial assessment:

	As at 31.12.2018 RM	Estimated effects of adoption of MFRS 16 RM	As at 1.1.2019 RM
Statement of Financial Position			
Assets			
Right-of-use assets	-	82,613	82,613
Liabilities			
Lease liabilities	-	84,734	84,734
Equity			
Retained earnings	115,289,113	(2,121)	115,286,992

(a) Right-of-use assets comprise premises. Subsequent to initial recognition, the right-of-use assets are measured at cost less any accumulated depreciation, accumulated impairment losses and adjusted for any remeasurement of lease liabilities. The right-of-use assets are measured at an amount equal to the lease liabilities

(b) Lease liabilities arising from the premises are recognised and discounted using the weighted average incremental borrowing rate of the Group of 5.8%. Subsequent to initial recognition, the Group measures the lease liabilities by increasing the carrying amount to reflect the interest on the lease liabilities, reducing the carrying amount to reflect lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications.

(c) The impact to the retained earnings of the Group as at 1 January 2019 amounted to RM2,121.

Other than the above, the Group elected to apply exemption for a lease of equipment which is low value under the Appendix C, paragraph 9(a) of this Standard. The lease payments of this equipment are recognised as an expense on a straight line basis over the remaining lease term.

TASHIN HOLDINGS BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, Lim Choon Teik and Foong Kok Chuin, being two of the Directors of Tashin Holdings Berhad (the "Company"), state that, in the opinion of the Directors, the combined financial statements set out on pages 5 to 68 are drawn up so as to give a true and fair view of the financial position of the Company and its subsidiaries (the "Group") as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018, and of its financial performance and cash flows for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards and the Prospectus Guidelines - Equity issued by the Securities Commission Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 May 2019.

....
Lim Choon Teik
Director

....
Foong Kok Chuin
Director

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The Board of Directors
Tashin Holdings Berhad
Level 7, Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur
Malaysia

Date: 27 May 2019

Our ref: BDO/LKH/TKY

Dear Sirs

Tashin Holdings Berhad ("Tashin Holdings" or "the Company") and its subsidiaries ("Tashin Holdings Group" or "the Group")
Report on the Compilation of Pro Forma Consolidated Statements of Financial Position as at 31 December 2018

We have completed our assurance engagement to report on the compilation of Pro Forma Consolidated Statements of Financial Position of the Group prepared by the Board of Directors of the Company. The pro forma consolidated statements of financial position as at 31 December 2018 together with the accompanying notes thereon, for which we have stamped for purpose of identification only, have been prepared for inclusion in the prospectus of Tashin Holdings in connection with the listing of and quotation for the entire enlarged share capital of Tashin Holdings on the ACE Market of Bursa Malaysia Securities Berhad.

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are described in Note 1 and Note 2 of the Pro Forma Consolidated Statements of Financial Position 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 of the Company for illustrative purposes only, to illustrate the impact of the transactions as set out in Note 1.3 of the Pro Forma Consolidated Statements of Financial Position on the Group's financial position as at 31 December 2018 had the transactions been effected as at 31 December 2018. As part of this process, information about the financial position of the Group has been extracted by the Board of Directors from the audited financial statements of Tashin Holdings Berhad, Tashin Steel Sdn. Bhd. and its subsidiary Tashin Hardware Sdn. Bhd. for the financial year ended 31 December 2018, which have been audited.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Board of Directors is solely responsible for compiling the Pro Forma Consolidated Statements of Financial Position as at 31 December 2018 and the related notes on the basis as described in Note 1 and Note 2 of the Pro Forma Consolidated Statements of Financial Position and accordance with the requirements of the Prospectus Guidelines.

Reporting Accountants' Independence and Quality Control

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.

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Reporting Accountants' Independence and Quality Control (continued)

Our 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 and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Board of Directors of the Company on the basis described in Note 1 and Note 2 of the Pro Forma Consolidated Statements of Financial Position and accordance with the requirements of the Prospectus Guidelines.

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in Note 1 and Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma 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 Pro Forma Consolidated Statements of Financial Position included in the prospectus is solely to illustrate the impact of significant events or transactions on unadjusted statements of financial position of the entity as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in Note 1 and Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines involve performing procedures to assess whether the applicable criteria on the basis 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 events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted statements of financial position.

BDO

Reporting Accountants' Responsibility (continued)

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions 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 described in Note 1 and Note 2 of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Other Matter

This report has been prepared solely for the purpose stated above, in connection with the listing of and quotation for the entire enlarged share capital of Tashin Holdings on the ACE Market of Bursa Malaysia Securities Berhad. As such, this report 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 report contrary to the aforesaid purpose.

Yours faithfully,

BDO PLT	**Law Kian Huat**
LLP0018825-LCA & AF 0206	02855/06/2020 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
27 May 2019

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

The pro forma consolidated statements of financial position ("SOFP") of the Group as at 31 December 2018 have been prepared for illustrative purposes only to show the effects on the audited SOFP of Tashin Holdings Berhad as at 31 December 2018 based on the assumptions that the listing scheme as set out in Note 1.3 had been effected on 31 December 2018.

	Note	Audited as at 31 December 2018 RM	Adjustments for the Acquisition RM	Pro Forma I RM	Adjustments for Public Issue RM	Pro Forma II RM	Adjustments for Utilisation of Proceeds RM	Pro Forma III RM
ASSETS								
Non-current asset								
Property, plant and equipment	3	-	73,398,470	73,398,470	-	73,398,470	25,250,000	98,648,470
Current assets								
Inventories		-	64,773,043	64,773,043	-	64,773,043	-	64,773,043
Trade and other receivables		-	49,976,404	49,976,404	-	49,976,404	-	49,976,404
Cash and bank balances	4	2	14,822,936	14,822,938	34,410,820	49,233,758	(27,111,085)	22,122,673
		2	129,572,383	129,572,385	34,410,820	163,983,205	(27,111,085)	136,872,120
TOTAL ASSETS		2	202,970,853	202,970,855	34,410,820	237,381,675	(1,861,085)	235,520,590
EQUITY AND LIABILITIES								
Equity attributable to owners of the parent								
Share capital	5	2	144,830,999	144,831,001	34,410,820	179,241,821	-	179,241,821
Merger reserve	5	-	(124,830,999)	(124,830,999)	-	(124,830,999)	-	(124,830,999)
Retained earnings	5	(165,935)	115,455,048	115,289,113	-	115,289,113	(1,442,189)	113,846,924
Revaluation reserve	5	-	20,493,751	20,493,751	-	20,493,751	-	20,493,751
TOTAL EQUITY		(165,933)	155,948,799	155,782,866	34,410,820	190,193,686	(1,442,189)	188,751,497

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Chartered Accountants
Kuala Lumpur

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (continued)

The pro forma consolidated statements of financial position ("SOFP") of the Group as at 31 December 2018 have been prepared for illustrative purposes only to show the effects on the audited SOFP of Tashin Holdings Berhad as at 31 December 2018 based on the assumptions that the listing scheme as set out in Note 1.3 had been effected on 31 December 2018 (continued).

	Note	Audited as at 31 December 2018 RM	Adjustments for the Acquisition RM	Pro Forma I RM	Adjustments for Public Issue RM	Pro Forma II RM	Adjustments for Utilisation of Proceeds RM	Pro Forma III RM
LIABILITIES								
Non-current liabilities								
Borrowings		-	61,261	61,261	-	61,261	-	61,261
Deferred tax liabilities		-	10,166,544	10,166,544	-	10,166,544	-	10,166,544
		-	10,227,805	10,227,805	-	10,227,805	-	10,227,805
Current liabilities								
Trade and other payables	6	165,935	17,898,642	18,064,577	-	18,064,577	(418,896)	17,645,681
Borrowings		-	18,151,282	18,151,282	-	18,151,282	-	18,151,282
Derivative liabilities		-	125,951	125,951	-	125,951	-	125,951
Current tax liabilities		-	618,374	618,374	-	618,374	-	618,374
		165,935	36,794,249	36,960,184	-	36,960,184	(418,896)	36,541,288
TOTAL LIABILITIES		165,935	47,022,054	47,187,989	-	47,187,989	(418,896)	46,769,093
TOTAL EQUITY AND LIABILITIES		2	202,970,853	202,970,855	34,410,820	237,381,675	(1,861,085)	235,520,590
Net (liabilities)/assets		(165,933)		155,782,866		190,193,686		188,751,497
Number of ordinary shares assumed in issue		2		289,662,000		348,991,000		348,991,000
Net (liabilities)/assets attributable to equity holders per ordinary share (RM)		(82,966.50)		0.54		0.55		0.54

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NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME

1.1 Pro forma group

The Pro Forma Consolidated Statements of Financial Position of Tashin Holdings Berhad ("Tashin Holdings" or "the Company") and its subsidiaries, namely Tashin Steel Sdn. Bhd. ("Tashin Steel") and Tashin Hardware Sdn. Bhd. ("Tashin Hardware") (collectively referred to as "Tashin Holdings Group", "Pro Forma Group" or "the Group") have been prepared for illustrative purposes only.

This Report covers the financial year ended 31 December 2018 and has been prepared using the audited financial statements of Tashin Holdings, Tashin Steel and Tashin Hardware.

1.2 Basis of preparation

The Pro Forma Consolidated Statements of Financial Position of the Group have been prepared on the basis consistent with the accounting policies adopted by the Group, in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") and with the requirements of the Prospectus Guidelines issued by the Securities Commission Malaysia.

The Pro Forma Consolidated Statements of Financial Position as at 31 December 2018 have been prepared for illustrative purpose only to show the effects of the transactions as described in Note 1.3 with the assumption that these transactions were completed on 31 December 2018. The Proforma Consolidated Statements of Financial Position is not necessarily indicative of the financial position that would have been attained had the listing scheme actually occurred at the respective dates. Accordingly, such information, because of its nature, may not be reflective of the actual financial position of the Group and does not purport to predict the future financial position of the Group.

The audited financial statements of Tashin Holdings, Tashin Steel and Tashin Hardware used in the preparation of the Pro Forma Consolidated Statements of Financial Position were not subject to any audit qualification.

The Group has applied the merger method of accounting as all the entities within the Group are under common control before and after the acquisition of Tashin Steel.

Under the merger method of accounting, the retained earnings and other equity balances of the Group immediately before the combination and the results from the beginning of the accounting period to the date of the combination are those of Tashin Steel. The equity structure, however, reflects the equity structure of Tashin Holdings, including the equity instruments issued to effect the combination which resulted in a merger reserve as disclosed below:

	RM
New Shares issued by Tashin Holdings to acquire Tashin Steel	144,830,999
Reversal of issued share capital of Tashin Steel pursuant to the merger	(20,000,000)
Merger reserve	124,830,999

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NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)

1.3 Listing scheme

In conjunction with and as an integral part of the listing of and quotation for the entire enlarged share capital of Tashin Holdings on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing"), the Group had undertaken and proposed to undertake the following transactions:

1.3.1 Acquisition

Acquisition of the entire equity interest in Tashin Steel by Tashin Holdings for a purchase consideration of RM144,830,999 to be satisfied by the issuance of 289,661,998 new ordinary shares at an issue price of RM0.50 each in Tashin Holdings.

1.3.2 Initial Public Offering ("IPO")

The IPO involves a Public Issue of 59,329,000 new ordinary shares in Tashin Holdings and an Offer for Sale of 55,489,000 existing ordinary shares in Tashin Holdings.

1.3.3 Listing and Quotation on the ACE Market of Bursa Securities

In conjunction with the IPO, Tashin Holdings would seek the listing and quotation of its entire enlarged share capital of RM179,241,821 comprising 348,991,000 ordinary shares in Tashin Holdings on the ACE Market of Bursa Securities.

1.3.4 Utilisation of Proceeds from Public Issue

The gross proceeds from the Public Issue of RM34,410,820 are expected to be utilised in the following manner:

Details of utilisation	**Estimated timeframe for utilisation upon Listing**	**RM**
Capital expenditure:		
- land acquisition	9 months	7,200,000
- construction of new manufacturing plant	24 months	10,350,000
- purchase of plant and machinery:		
- 5 wire mesh manufacturing lines	24 months	4,100,000
- a slitting line and 5 packing machines	6 months	3,600,000
Total capital expenditure		25,250,000
General working capital	12 months	5,960,820
Estimated listing expenses (i)	1 month	3,200,000
		34,410,820

(i) Estimated listing expenses

	RM
Estimated listing expenses	3,200,000
Less: Amounts paid and expensed off	(1,338,915)
	1,861,085
Less: Amounts accrued and expensed off	(418,896)
Balance of estimated listing expenses to be expensed off	1,442,189

The estimated listing expenses totaling RM3,200,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. RM1,757,811 has been expensed off to profit or loss in the audited financial statements of Tashin Steel for the financial year ended 31 December 2018 and 31 December 2017. In conjunction with the RM1,757,811, RM1,338,915 was paid out and RM418,896 was accrued in the audited financial statements. The remaining portion of the estimated listing expenses of RM1,442,189 will be expensed off to profit or loss and all these represent a one-off expenditure in conjunction with the IPO.

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NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

2. PRO FORMA ADJUSTMENTS TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

2.1 PRO FORMA I

Pro Forma I is stated after the acquisition as disclosed in Note 1.3.1.

2.2 PRO FORMA II

Pro forma II is stated after Pro Forma I and after the completion of the public issue as disclosed in Note 1.3.2 and Note 1.3.3.

2.3 PRO FORMA III

Pro forma III is stated after Pro Forma II and after the utilisation of proceeds as disclosed in Note 1.3.4.

3 PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment are as follows:

	RM
As at 31 December 2018	-
Adjustments for acquisition	73,398,470
Pro Forma I/II	**73,398,470**
Proposed utilisation of proceeds	
- Capital expenditure	25,250,000
Pro Forma III	**98,648,470**

4 CASH AND BANK BALANCES

The movements of cash and bank balances are as follows:

	RM
As at 31 December 2018	2
Adjustments for acquisition	14,822,936
Pro Forma I	**14,822,938**
Public issue	34,410,820
Pro Forma II	**49,233,758**
Proposed utilisation of proceeds	
- Capital expenditure	(25,250,000)
- Estimated listing expenses	(1,861,085)
Pro Forma III	**22,122,673**

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NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

5 SHARE CAPITAL AND RESERVES

The movements in the share capital and reserves are as follows:

	Share capital RM	Merger reserve RM	Retained earnings RM	Revaluation reserve RM	Total RM
As at 31 December 2018	2	-	(165,935)	-	(165,933)
Acquisition	144,830,999	(124,830,999)	115,455,048	20,493,751	155,948,799
Pro Forma I	**144,831,001**	**(124,830,999)**	**115,289,113**	**20,493,751**	**155,782,866**
Public issue	34,410,820	-	-	-	34,410,820
Pro forma II	**179,241,821**	**(124,830,999)**	**115,289,113**	**20,493,751**	**190,193,686**
Less: Listing expenses	-	-	(1,442,189)	-	(1,442,189)
Pro forma III	**179,241,821**	**(124,830,999)**	**113,846,924**	**20,493,751**	**188,751,497**

6 TRADE AND OTHER PAYABLES

The movements of trade and other payables are as follows:

	RM
As at 31 December 2018	165,935
Adjustments for acquisition	17,898,642
Pro Forma I/II	**18,064,577**
Proposed utilisation of proceeds - Listing expenses accrued	(418,896)
Pro Forma III	**17,645,681**

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2 7 MAY 2019
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Chartered Accountants
Kuala Lumpur

APPROVAL BY THE BOARD OF DIRECTORS

The Pro Forma Consolidated Statements of Financial Position have been approved and adopted by the Board of Directors in accordance with a resolution dated 27 May 2019.

....

Lim Choon Teik
DIRECTOR

....

Foong Kok Chuin
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) Save for 8,724,800 Shares under the Pink Form Allocations and 17,449,600 Shares under the Restricted Offering as disclosed in Sections 4.4.3 and 4.4.1(c), respectively,

(i) no Director, employee or business associate 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.

(c) Save for the new Shares issued pursuant to the Acquisition of Tashin Steel as disclosed in Section 6.2, new Shares to be issued pursuant to the Public Issue as disclosed in Section 4.4.1 and the 2 Shares subscribed by Lim Lih Chau and Mak Chooi Peng, 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.

(d) Other than our Public Issue as disclosed in Section 4.4.1, there is no intention on the part of our Directors to further issue any Shares.

(e) 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 Company's 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

Clause 175

The Board can decide on the amount, timing and method of payment of Directors' fees. However, fees of a non-executive Director must be a fixed amount and must not be by a commission on or percentage of profits or turnover. Also, any fee paid by the Company to an alternate Director must be deducted from the appointing Director's remuneration.

Directors' expenses

Clause 176

The Board can also repay to a Director all expenses properly incurred in:

176.1 attending and returning from general meetings, Board meetings or Board committee meetings; or

176.2 any other way in connection with the Company's business.

Extra fees

Clause 177

The Board can award extra fees to a Director who:

177.1 holds an executive position;

177.2 acts as chairman or deputy chairman of the Company;

177.3 serves on a Board committee or sub-committee at the request of the Board; or

177.4 performs any other services which the Board considers extends beyond the ordinary duties of a Director.

Clause 178

Subject to the other parts of the Constitution and Listing Requirements, extra fees can be in the form of salary, commission, profit sharing or other benefits (and can be paid partly in 1 way and partly in another). They can also include any kind of benefit for the Director's dependants. This is all decided by the Board.

Pensions and other benefits

Clause 179

Subject to Listing Requirements and the Act, the Board can decide whether to provide:

179.1 pensions or retirement benefits;

179.2 annual payments; or

179.3 other allowances or benefits,

to any people who are or who were Directors of the Company. The Board can decide to extend these arrangements to relations or dependants of, or people connected to, these people. The Board can also decide to contribute to a scheme or fund or to pay premiums to a third party for these purposes.

Clause 180

The Company can only provide pensions and other similar benefits to:

180.1 people who are or were Directors; and

180.2 relations or dependants of, or people connected to, those Directors or former Directors,

The receipt of a benefit of any kind given in accordance with this Clause does not prevent a person from being or becoming a Director of the Company.

Clause 181

Shareholders must approve the matters in Clauses 175 to 179 as far as the laws require in relation to Directors' fees and benefits. Anyhow, Directors' fees and benefits payable to Directors must be subject to annual shareholders' approval at a General Meeting.

(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

Clause 190

Every Director has 1 vote at a meeting of the Board. Matters for decision which arise at a Board meeting will be decided by a majority vote casted by the Directors present in the meeting. If the votes are equal, the chairman of the meeting has a second casting vote. However, the chairman of the meeting will not have a second casting vote where only 2 Directors form the quorum and only such a quorum is present at the meeting or only 2 Directors are competent to vote on the question at issue.

Directors' Borrowing Powers

Clause 223

To the extent that Act, Listing Requirements and the Constitution allow, the Board can exercise all the powers of the Company to:

223.1 borrow money;

223.2 mortgage or charge all or any part of the Company's businesses, properties and assets (present and future);

223.3 issue debentures and other securities; and

223.4 give security (including (without limitation), guarantees, indemnities and mortgages and charges) either outright or as collateral security, for a debt, liability or obligation of the Company or another person.

(3) Directors' Interest

The provisions in our Constitution dealing with Directors' interest are as follows:

When Directors can vote on things

Clause 197

A Director cannot vote (and if the director does vote, such vote will not be counted) on a resolution about a contract in which the Director (or a person connected with the Director) is directly or indirectly interested.

Clause 198

A Director is counted in the quorum for a Board meeting in relation to a resolution although the Director is not entitled to vote.

Clause 199

A Director is not interested in a contract where Sections 221(2) or (3) of the Act say that they are not. This Clause does not affect any equitable principle or rule of law relating to Directors not being treated as interested. This Clause is subject to Listing Requirements.

Clause 200

This Clause applies if the Board is considering proposals to appoint 2 or more Directors to positions with the Company or any company in which the Company has an interest. It also applies if the Board is considering fixing or varying the terms of the appointment. These proposals can be split up to deal with each proposed Director separately. If this is done, each proposed Director can vote (unless the proposed Director is prevented from voting under Clause 197) and be counted in the quorum for each resolution.

Clause 201

If a question comes up at a meeting about whether a Director (other than the chairman of the meeting) has all interests or whether the Director can vote or be counted in the quorum, and the Director does not agree to abstain from voting on the question or not be counted in the quorum, the question must be referred to the chairman of the meeting. The chairman's ruling about the Director is conclusive, unless the nature or extent of the Director's interests has not been fairly disclosed to the Board. If the question comes up about the chairman of the meeting, the question will be decided by a resolution of the Board. The chairman cannot vote on the question but can be counted in the quorum. The Board's resolution about the chairman is conclusive, unless the nature or extent of the chairman's interests has not been disclosed to the Board.

(4) Share and Share Capital

The provisions in our Constitution dealing with changes in share and share capital are as follows:

Classes of shares

Clause 17

Where the Company has different classes of shares, the Constitution must say prominently:

17.1 that the Company's share capital is divided into different classes of shares;

17.2 the voting rights attached to shares in each class;

17.3 any other rights attached to those shares; and

17.4 any other things which Section 90 of the Act requires.

Section 89(2) of the Act applies.

Clause 18

The Constitution must set out the rights of shareholders attached to preference shares or shares convertible into preference shares. The rights which must be set out include shareholders' rights on:

18.1 a repayment of capital;

18.2 participation in surplus assets and profits;

18.3 cumulative or non-cumulative dividends;

18.4 voting; and

18.5 priority of payment of capital and dividend when compared to other shares or classes of preference shares.

Share and Special Rights

Clause 21

The Company can issue new shares and attach any right and restriction to them, as long as this is not restricted by special rights previously given to holders of any existing share. Subject to this, the rights of new shares can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally. These rights and restrictions can apply to sharing in the Company's profits or assets. Other rights and restrictions can also apply, for example, those relating to the right to vote.

Clause 22

The shareholders can decide on the rights and restrictions to be attached to new shares by passing an ordinary resolution. The Board can also take these decisions if the shareholders have not passed a resolution which covers the point. However, where different classes of shares arise, Clause 17 also applies.

Clause 23

The Company may allot preference shares or convert any existing shares into preference shares and Clause 18 shall then applies.

Changing special rights of shares

Clause 24

If the Company's share capital is split into different classes of share, the special rights attached to any of these classes can be varied or withdrawn if the shareholders approve this by passing a special resolution. This must be passed at a separate meeting of the holders of that class of shares. This is called a class meeting. Alternatively, the holders of at least 75% of the existing shares of the class (by voting rights) can give their written consent.

Clause 25

The parts of the Constitution which relate to general meeting apply, with any necessary changes, to a class meeting, but with these adjustments:

25.1 a holder of shares who is present in person or by proxy can demand a poll;

25.2 on a poll, the holders of shares will have 1 vote for every share of the class which they hold; and

25.3 the vote will, anyhow, be by poll if Listing Requirements require this.

This is subject to any special rights or restrictions which are attached to a class of shares by the Constitution, or any rights attached to shares in some other way under the Constitution.

Clause 26

Clauses 24 and 25 also apply if:

26.1 special rights of shares forming part of a class are varied or withdrawn. Each part of the class which is being treated differently is viewed as a separate class in applying this Clause;

26.2 preference shares are issued which rank equally with existing preference shares. However, these Clauses do not apply if the terms of issue of existing preference shares or the Constitution allows those preference shares to be issued.

Board's authority to allot Shares and "equity securities" and to sell treasury shares

Clause 31

Where the Company in general meeting does not direct in a different way:

31.1 new shares or convertible securities must be offered, before issue, to shareholders entitled to receive notices from the Company of general meetings;

31.2 the offer must, as far as circumstances allow, be in proportion to the amount of existing shares or securities to which such shareholders are entitled;

31.3 the offer must be by a notice which specifies the number of shares or securities offered and which limits the time within which, the offer must be accepted or be treated as declined;

31.4 if the offer is not accepted within such time or if such shareholders decline to accept the offer, the Board may dispose of those shares or securities in a way which they decide as most beneficial to the Company;

31.5 the Board may also dispose of any new share or security which the Board considers cannot be conveniently offered under this Clause 31 on grounds of the ratio which the new shares or securities bear to shares or securities held by shareholders entitled to such an offer.

Renunciations of allotted but unissued shares

Clause 35

Where a share or other security has been allotted to a person but that person has not yet been entered into the register of members or record of depositors ("ROD"), the Board can recognise a transfer (called a renunciation) by that person of his/her right to the share to be renounced in favour of some other person. Allotments can only apply if the terms on which the share or other security is allotted are consistent with renunciation. The Board can impose terms and conditions regulating renunciation rights.

Power to change capital

Clause 38

The shareholders can pass a special resolution to alter the Company's share capital in accordance with Section 84 of the Act.

Clause 39

If any shares are consolidated or divided, the Board may deal with any fractions of shares which result or any other problem that arises. If the Board decides to sell any shares which represent fractions, they must sell for the best price they can reasonably obtain and distribute the net proceeds of sale among shareholders in proportion to their fractional entitlements or shall be disregarded and will be dealt with by the Board in such a manner as they deem fit at their absolute discretion and in the best interest of the Company. The Board can sell to a person (including the Company, if the Act and Listing Requirements allow) and can authorise a person to transfer those shares to the buyer or in accordance with the buyer's instructions. The buyer does not need to take any action to check how any money paid is used. The buyer's ownership will not be affected if the sale was irregular or invalid in any way.

Clause 40

The shareholders can also pass an ordinary resolution to convert any paid-up shares into stock and reconvert any stocks into paid-up shares in accordance with Section 86 of the Act.

Securities Transfers

Clause 50

Transfers of any listed security or class of listed security shall be by way of book entry by the Depository in accordance with Depository Rules. The Company shall not register or effect any transfer of listed securities although Sections 105, 106 and 110 of the Act may say something else. It shall not do so despite Sections 103(1), 106 and 110 of the Act. This does not, however, apply to a transfer of securities to the Depository or its nominee or from the Depository or its nominee to Depositors under Section 148(2) of the Act or any transfer of securities under any exemption given from compliance with Section 148(1) of the Act.

Clause 53

The Depository may refuse to transfer any Deposited Shares which does not comply with SICDA and Depository Rules. A shareholder can transfer some or all of his/her/their non-depository shares unless the Constitution says something else.

Clause 56

The Board can refuse to register such a transfer delivered:

56.1 where the transfer breaches any law or regulation or licensing or requirement (of any jurisdiction) which applies to the Company or any of its subsidiaries or any entity in which any of them have an interest;

56.2 where the transfer is unlawful under Malaysian law; or

56.3 the transfer relates to partly paid shares where a call has been made and is unpaid.

(5) Directors

Clause 153

There must be at least 2 but not more than 12 Directors. The shareholders can vary this minimum (which must be at least 2 and/or decide or vary a maximum number of Directors by passing an ordinary resolution.

Appointment and Removal of Directors

Clause 155

Only the following people can be elected as Directors at a general meeting:

155.1 a Director who is retiring at the general meeting;

155.2 a person who is recommended by the Board for election and Clause 155.3 is complied with except that the notice to be delivered to the Registered Office requires only 9 clear days instead of 11 clear days; and

155.3 a shareholder who is entitled to attend and vote at the general meeting (other than the proposed Director) and who intends to propose a person to be a Director, must deliver to the Company a notice in writing at the Registered Office, signed by the shareholder. The notice must be signed by the proposed Director, consenting to nomination and signifying his/her/their candidature for the office or stating the intention of such shareholder to propose the proposed Director for election. This notice must also state whether the proposed Director is an additional Director or to replace a Director and be delivered not less than 11 clear days before the date of the general meeting. Any proposal by such shareholder to elect a person to replace a Director is subject to Clause 159.

Notice of each and every candidature must be given to the shareholders at least 7 days before the date of the general meeting.

Removing and electing Directors by ordinary resolution

Clause 159

The shareholders can pass an ordinary resolution to remove a Director or to replace a Director with another person before the Director's time in office has ended. This applies despite anything else in the Constitution or in any agreement between the Company and the Director. Special notice of the resolution must be given to the Company as required by the Act. If a Director is removed or replaced in this way, it will not affect any claim which the Director has for damages for breach of any contract of service.

Directors can act if there are vacancies

Clause 162

Even if 1 or more Director(s) has stopped being a Director, the remaining Director(s) can continue to act. If the number of Director(s) falls below the minimum which applies under Clause 153 (including any variation of that minimum approved by an ordinary resolution of shareholders), the remaining Director(s) can only:

162.1 appoint further Director(s) to make up the shortfall;

162.2 convene a general meeting; or

162.3 in the meantime, perform duties to meet emergencies.

Clause 163

If no Director is willing or able to act under Clause 162, any 2 shareholders can call a general meeting to elect Director(s), provided that, if no Directors are able to act because all of the resolutions for election or annual re-election of the Directors are put to the annual general meeting and lost, the retiring Directors who stood for election or re-election at that annual general meeting will be treated as being elected or re-elected (as the case may be) and will continue as Directors. In these circumstances, the Directors can only:

163.1 convene a general meeting in accordance with Clause 164; and

163.2 in the meantime, perform duties to meet emergencies.

Clause 164

In the circumstances set out in Clause 163, the Directors will convene another general meeting as soon as reasonably practicable following the annual general meeting referred to in that Clause and retire from office at that general meeting. If at the end of that general meeting the number of Director(s) still falls below the minimum which applies under Clause 153 (including any variation of that minimum approved by an ordinary resolution of shareholders) the provision of Clause 164 will apply again to the general meeting.

Retirement of Directors

Annual retirement of Directors

Clause 165

At every annual general meeting, 1/3 of the Directors at the date of the notice convening the annual general meeting will retire from office unless elected or re-elected at the annual general meeting. The Directors retiring will be those longest in office since their last election. If Directors were elected on the same day, the Directors to retire will either be as agreed between those Directors or by lot. If the total number of the Directors is not 3 or a multiple of it, the number nearest to 1/3 will retire. All Directors shall retire from office once at least in each 3 years, but shall be eligible for re-election. If the first annual general meeting had not yet been held when the Constitution was adopted, all the Directors will retire at that first annual general meeting.

Re-electing Directors who retire

Clause 166

At each annual general meeting at which the Directors retire in accordance with Clause 165, the shareholders can pass an ordinary resolution to re-elect each Director or, if Clause 155 has been complied with, to elect some other eligible person in the Director's place.

The retiring Director is treated as re-elected unless:

166.1 the general meeting expressly resolves not to elect a Director to fill the vacancy;

166.2 the Director has told the Company in writing that the Director does not want to be re-elected;

166.3 a resolution to re-elect the Director is put to the general meeting and lost; or

166.4 any maximum number of Directors which applies under Clause 153 (including any variation of that maximum approved by an ordinary resolution of shareholders) would be exceeded.

Clause 165A

Directors who are deemed as independent Directors, as defined by the Listing Requirements, shall be subject to annual re-appointment by shareholders as follows:-

165A.1 For an independent Director who has served for a cumulative term of 9 years in aggregate, the Company shall provide justification and seek shareholders' approval for his/her continued service as independent Director and the resolution shall be passed by way of an ordinary resolution; and

165A.2 For an independent Director who has served for a cumulative term of 12 years in aggregate, the Company shall provide justification and seek shareholders' approval for his/her continued service as independent Director through a two-tier voting process as defined by the Malaysian Code on Corporate Governance.

When a Director Retires

Clause 167

A Director retiring at a general meeting retires at the end of that general meeting or (if earlier) when a resolution is passed to elect another person in the Director's place or when a resolution to re-elect the Director is put to the general meeting and lost. Where a retiring Director is re-elected (or treated as re-elected under Clauses 163 or 166) the retiring Director continues as a Director without a break.

(6) Shareholders' Voting Rights

The provisions in our Constitution dealing with shareholders' voting rights are as follows:

ROD for the meeting

Clause 129

The Company shall request the Depository in accordance with Depository Rules, to issue a ROD, as at the latest date reasonably practicable, which in any event is at least 3 market days before the general meeting.

Clause 130

Subject to Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996, a Depositor shall not be regarded as a shareholder entitled to attend the general meeting and to attend, speak, participate and vote in it unless that shareholder's name appears in the ROD for that general meeting.

Votes of shareholders

Clause 131

Where there is a vote on a show of hands, a shareholder of ordinary or preference shares (who has a right to vote) present at a general meeting in person (including, by a representative) or by proxy has 1 vote. Where there is a poll, a shareholder of ordinary or preference shares (who has a right to vote) present in person (including, by a representative) or by proxy has 1 vote for every share which they hold or represent. The same applies to other shareholders. All of these are subject to any special rights or restrictions which are given to a class of shares or by the Constitution.

Votes of joint shareholders

Clause 132

Where joint holders vote, Section 295(2) of the Act applies.

Votes of shareholders who are unable to manage their affairs

Clause 133

This Clause 133 applies where a:

133.1 shareholder is unable to manage his/her/their affairs; and

133.2 a court which claims jurisdiction to protect people who are unable to manage their affairs has made an order about the shareholder.

The people appointed by the court to act for the shareholder can vote for the shareholder and exercise other rights at general meeting. This includes appointing a proxy, voting on a show of hands and voting on a poll. However, this only applies if any evidence which the Board requires of their authority to do these things is delivered to the Registered Office or any other place the Board specifies for delivery of proxy forms at least 48 hours before the relevant meeting (or adjourned general meeting).

Challenging votes

Clause 134

An objection to the right of a person to vote must be made at the general meeting (or adjourned general meeting) at which the vote is cast. If a vote is not disallowed at a general meeting, it is valid for all purposes. An objection must be raised with the chairman of a general meeting. The chairman of a general meeting's decision is conclusive.

14.3 GENERAL INFORMATION

(a) Save for the purchase consideration paid to the shareholders of our subsidiary pursuant to the Acquisition of Tashin Steel as disclosed in Section 6.2, Directors' remuneration as disclosed in Section 5.2.4, dividends paid to our Promoters as disclosed in Section 11.14, 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 Promoter, Director or substantial shareholder.

(b) Save as disclosed in Section 9.1, 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 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.

14.4 CHANGES IN SHARE CAPITAL

As at the LPD, our share capital is RM144,831,001 comprising 289,662,000 Shares. The movements in our share capital since the date of our incorporation are set out below:

Date of allotment	No. of Shares allotted	Consideration	Cumulative share capital
		RM	RM
14 August 2017	2	2	2
9 April 2019	289,661,998	144,830,999	144,831,001

As at the LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will be increased to RM179,241,821 comprising 348,991,000 Shares from the issuance of 59,329,000 Issue Shares.

The share capital of our subsidiaries is as follows.

14.4.1 Tashin Steel

As at the LPD, Tashin Steel's share capital is RM20,000,000 comprising 20,000,000 ordinary shares.

The changes in the share capital of Tashin Steel since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
30 October 1998	2	2	2
20 October 1999	99,998	99,998	100,000
5 January 2000	2,655,100	2,655,100	2,755,100
21 December 2000	2,239,900	2,239,900	4,995,000
21 December 2000	2,150,000	2,150,000	7,145,000
27 March 2001	3,000,000	3,000,000	10,145,000
27 March 2001	2,880,000	2,880,000	13,025,000
14 December 2001	2,743,000	2,743,000	15,768,000
14 December 2001	2,640,000	2,640,000	18,408,000
28 March 2002	812,000	812,000	19,220,000
28 March 2002	780,000	780,000	20,000,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Tashin Steel. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.4.2 Tashin Hardware

As at the LPD, Tashin Hardware's share capital is RM2,500,000 comprising 2,500,000 ordinary shares.

The changes in the share capital of Tashin Hardware since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration	Cumulative share capital
		RM	RM
16 February 2004	2	2	2
20 December 2004	499,998	499,998	500,000
28 December 2012	2,000,000	2,000,000	2,500,000

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Tashin Hardware. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.5 CONSENTS

(a) The written consents of the Adviser, Sponsor, Managing Underwriter, Placement Agent, Solicitors, Joint Underwriters, 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 IMR Report titled "Industry Overview of the Steel Market and Steel Processing 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 of our Company;

(b) The audited financial statements of the Tashin Group for the FYEs 2015, 2016, 2017 and 2018;

(c) The Accountants' Report as set out in Section 12;

(d) The Reporting Accountants' reports relating to our pro forma consolidated financial information as set out in Section 13;

(e) The IMR Report as set out in Section 7;

(f) The material contracts as set out in Section 6.15;

(g) The letters of consent as set out in Section 14.5; and

(h) The undertaking letter by Prestar as set out in Section 10.1(b)(vi).

14.7 RESPONSIBILITY STATEMENTS

Our Directors and Promoters 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.

15. PROCEDURES FOR APPLICATION AND ACCEPTANCE

15.1 OPENING AND CLOSING OF APPLICATION

Applications for the Issue Shares will be accepted and closed at the time and date stated as below:

OPENING: 10.00 a.m. on 25 June 2019

CLOSING: 5.00 p.m. on 19 July 2019

In the event there is any change to the timetable, 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 APPLICATION

Applications for the Issue Shares may be made using either of the following:

Type of application form	Category of Investor
White Application Form or Electronic Share Application or Internet Share Application	Malaysian Public (for individuals)
White Application Form	Malaysian Public (for non-individuals, e.g. corporations, institutions etc)
Pink Form Applications	Our eligible Directors and employees as well as Directors and employees of the Prestar Group
Blue Application Form	Entitled Shareholders of Prestar

You must have a CDS account before you can submit your application either by way of Application Forms or Electronic Share Application as well as Internet Share Application.

Our eligible Directors and employees as well as Directors and employees of the Prestar Group who have made applications using the PINK Application Forms and the Entitled Shareholders of Prestar who have made applications using the BLUE Application Forms may still apply for the Issue Shares allocated to the Malaysian Public using the WHITE Application Form or the Electronic Share Application or the Internet Share Application.

However, applicants using the WHITE, the PINK and the BLUE Application Forms are not allowed to submit multiple applications in the same category of application. Further, applicants who have submitted their applications using the WHITE Application Forms are not allowed to make additional applications using the Electronic Share Applications or the Internet Share Applications, and vice versa.

15.3 PROCEDURES FOR APPLICATION AND ACCEPTANCE

An application must be made in relation with and subject to the terms of this Prospectus and our Constitution. Applicants agree to be bound by the Constitution of our Company.

15.3.1 Application by the Malaysian Public (WHITE Application Forms, Electronic Share Applications or Internet Share Applications)

Eligibility

You can only apply for the Issue Shares allocated to the Malaysian Public if you meet the following requirements:

(i) you must have a CDS account. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs;

(ii) you must be one of the following:

(a) a Malaysian citizen who is at least 18 years old as at the Closing Time and Date with a Malaysian address;

(b) corporation/institution incorporated in Malaysia where, there is a majority of Malaysian citizens on your board of directors/trustee and if you have a share capital, more than half of your issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(c) a co-operative, foundation, provident or pension fund established or operating in Malaysia.

We will not accept applications from trustees, persons under 18 years of age, sole proprietorships, partnerships or other incorporated bodies or associations, other than corporations/institutions referred to in item (ii)(b) or (c) above or the trustees thereof; and

(iii) you are not a director or an employee of the issuing house or their immediate family members.

Applications by the Malaysian Public must be made on the WHITE Application Forms provided or by way of Electronic Share Application or Internet Share Application. A corporation or institution cannot apply for shares by way of Electronic Share Application or Internet Share Application. The amount payable in full upon application is RM0.58 per Issue Share.

Applicants using the WHITE Application Forms are not allowed to submit multiple applications in the same category of application. Further, applicants who have submitted their applications using WHITE Application Forms are not allowed to make additional applications using the Electronic Share Applications or the Internet Share Application, and vice versa.

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15.3.2 Application by our eligible Directors and employees as well as Directors and employees of the Prestar Group (PINK Application Forms)

Our eligible Directors and employees as well as Directors and employees of the Prestar Group will be provided separately with PINK Application Forms and letters from us detailing their respective allocations. The applicants must follow the notes and instructions in the said document and where relevant, in this Prospectus. The amount payable in full upon application is RM0.58 per Issue Share.

If the eligible Directors and employees as well as Directors and employees of the Prestar Group is a non-Malaysian, their name and passport number must be exactly as that stated in their passport.

Our eligible Directors and employees as well as Directors and employees of the Prestar Group are not precluded from making additional applications under the Malaysian Public category using the WHITE Application Forms. If you are an Entitled Shareholder of Prestar, you are also entitled to apply under the Restricted Offering using the BLUE Application Forms. Applicants using the PINK Application Forms are not allowed to submit multiple applications in the same category of application.

15.3.3 Application by Entitled Shareholders of Prestar (BLUE Application Forms)

Applications by the Entitled Shareholders of Prestar for the Issue Shares which have been set aside for the Restricted Offering must be made on the BLUE Application Forms and NOT by way of other Application Forms or by way of Electronic Share Application or Internet Share Application. The Entitled Shareholders of Prestar must follow the notes and instructions in the said document as well as the cover letter accompanying the BLUE Application Form and where relevant, in this Prospectus. The amount payable in full upon application is RM0.58 per Issue Share. The Entitled Shareholders of Prestar are not precluded from making additional applications for the issue Shares made available under the Malaysian Public category using the WHITE Application Forms.

Applicants using the BLUE Application Forms are not allowed to submit multiple applications in the same category of application.

17,449,600 Issue Shares are reserved for application by the Entitled Shareholders of Prestar via the Restricted Offering, and shall be allocated in the following manner:

(i) each Entitled Shareholder of Prestar who applies for at least 100 Issue Shares is guaranteed an allocation of 100 Issue Shares;

(ii) any Issue Shares applied for after the allocation under item (i) above shall be allocated to the Entitled Shareholders of Prestar who apply in excess of 100 Issue Shares on a pro-rata basis according to their respective shareholdings in Prestar as at the Entitlement Date; and

(iii) any Issue Shares applied for after the allocation under items (i) and (ii) above shall be allocated to the Entitled Shareholders of Prestar on pro-rata basis according to the remaining Issue Shares under application.

Subject always to such allocation being made on a fair and equitable basis and that the intention of the Board of Tashin Holdings as set out above is achieved.

Any fractional entitlements and odd lots arising from the Restricted Offering shall be disregarded and rounded down to the nearest board lot, and the aggregate of such fractions and such odd lots will be dealt with in such manner or on such terms as the Board may deem fit and expedient in the best interest of Tashin Holdings.

As our Shares are prescribed securities, the Shares will be credited into the respective CDS accounts of the Entitled Shareholders of Prestar. No physical share certificate will be issued, but the notices of allotment shall be despatched.

The entitlement of the Entitled Shareholders of Prestar to participate in the Restricted Offering is non-renounceable and non-tradable. Entitled Shareholders of Prestar are not allowed to submit multiple applications for the Issue Shares made available under the Restricted Offering and our Board has the absolute discretion to reject multiple applications. However, the Restricted Offering does not preclude the Entitled Shareholders of Prestar from making additional applications for the Issue Shares made available under the Malaysian Public category using the WHITE Application Forms.

Excluded Shareholders are advised that they shall be solely responsible to seek their own advice as to the laws of any jurisdiction which they may be subject to. Participation in the Restricted Offering by any of the shareholders of Prestar shall be based on their warranty to our Company, Prestar or the Principal Adviser that they may lawfully so participate without our Company, the Principal Adviser, the Share Registrar and/or other advisers and experts being in breach of the laws of any jurisdiction other than the laws of Malaysia to which the Excluded Shareholders are or might be subject to. Excluded Shareholders will have no rights or claims whatsoever against us, the Promoters, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, any of their respective Directors or any other persons involved in the Restricted Offering in respect of their entitlement to apply for the Issue Shares under the Restricted Offering. We, the Promoters, the Principal Adviser, the Managing Underwriter, the Joint Underwriters, any of their respective Directors or any other persons involved in the Restricted Offering shall not accept any responsibility and liability in the event that any acceptance under the Restricted Offering is or becomes illegal, unenforceable, voidable or void or shall contravene the laws in such countries and jurisdictions.

This Prospectus will not be registered under any applicable securities legislation of any foreign jurisdiction. Accordingly, the Prospectus will not be sent to the Excluded Shareholders.

BLUE Application Form

This Prospectus will be distributed to the Entitled Shareholders of Prestar in CD-ROM format (contents of which will be in printable format) whose registered addresses are maintained with Bursa Depository.

However, the Entitled Shareholders of Prestar may request for a copy of the printed Prospectus from the Share Registrar or our Company or Prestar at no cost and are given an option to have the printed Prospectuses despatched to them free of charge to their mailing address within 3 Market Days from the date of receipt of their request, or to obtain the printed Prospectuses from the following locations as stated below:

(i) our Company;

(ii) Prestar;

(iii) Share Registrar; and

(iv) Issuing House.

Any delivery charges will be borne by our Company.

The BLUE Application Forms can be obtained from the Share Registrar.

Application and payment for the Issue Shares under the Restricted Offering must be made on the BLUE Application Form issued together with this Prospectus and must be completed in accordance with the notes and instructions printed therein.

The completed BLUE Application Form, together with the remittance in RM for the full amount payable in the form of Banker's Draft or Cashiers Order or Money Order or Postal Order drawn on a bank or post office in Malaysia and made out in favour of "TASHIN RESTRICTED OFFERING ACCOUNT" and crossed "A/C PAYEE ONLY" and endorsed on the reverse side with the name, address and CDS account number of the applicant in block letters, must be received by our Share Registrar no later than 5:00 p.m. on 19 July 2019, or such later date or dates as our Directors and the Managing Underwriter may decide in their absolute discretion. Cheques or any other modes of payment will not be accepted and will be rejected.

Each completed BLUE Application Form must be despatched by ORDINARY POST, COURIER or DELIVERED BY HAND in the official envelope provided, to the following address:

Securities Services (Holdings) Sdn Bhd (36869-T)
Level 7, Menara Milenium
Jalan Damanlela,
Pusat Bandar Damansara
Damansara Heights
50490 Kuala Lumpur

Tel No.: 603-2084 9000
Fax No.: 603-2094 9940

So as to arrive no later than 5.00 p.m. on 19 July 2019, or such later date or dates as our Directors and the Managing Underwriter, may decide in their absolute discretion.

The Entitled Shareholders of Prestar, who wish to apply for the Issue Shares which have been set aside for the Restricted Offering using the BLUE Application Form may check their eligibility by referring to our Share Registrar at the address stated above.

15.4 PROCEDURES FOR APPLICATIONS BY WAY OF APPLICATION FORMS

(i) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.

(ii) If your Application is rejected because you did not provide a CDS Account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (i) and (ii) above (as the case may be).

(iv) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

15.5 PROCEDURES FOR APPLICATIONS BY WAY OF ELECTRONIC SHARE APPLICATION AND INTERNET SHARE APPLICATION

(i) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.

(ii) You may check your account on the 5^{th} Market Day from the balloting date.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

15.6 TERMS AND CONDITIONS

An application for Issue shares is subject to the following additional terms and conditions

(i) You are required to pay the Issue Price of RM0.58 for each Issue Share you have applied for.

(ii) You can submit only one application for the issue Shares allocated to the Malaysian Public. For example, if you submit an application using the WHITE Application Form, you cannot submit an Electronic Share Application or Internet Share Application. However, if you have made an application under the PINK or the BLUE Application Forms, you can still apply for the Issue Shares allocated to the Malaysian Public using the WHITE Application Form or by way of Electronic Share Application or Internet

Share Application The Issuing House, acting under the authority of our Directors, has the discretion to reject applications that appear to be multiple applications under each category of investors. We wish to caution you that if you submit more than one application in your own name or by using the name of others, with or without their consent, you will be committing an offence under Section 179 of the CMSA and may be punished with a minimum fine of RM1.0 million and a jail term of up to 10 years under Section 182 of the CMSA.

(iii) Each application under the WHITE, the PINK and the BLUE Application Forms, the Electronic Share Application and the Internet Share Application must be for at least 100 Issue Shares or multiples of 100 issue Shares.

(iv) Your application must be made in connection with and subject to this Prospectus and our Constitution. You agree to be bound by our Constitution should you be allotted any of our shares.

(v) Your submission of an application does not necessarily mean that your application will be successful. Any submission of application is irrevocable.

(vi) We or the Issuing House will not Issue any acknowledgement of receipt of your application or application monies.

(vii) No application shall be deemed to have been accepted by reason of remittances having been presented for payment.

Our acceptance of your application to subscribe for or purchase the Issue Shares shall be constituted by the issue of notices of allotment for the Issue Shares allotted to you.

(viii) Submission of your CDS account number in your application includes your authority/consent in accordance with Malaysian laws of the right of Bursa Depository, the Participating Financial Institution and the Internet Participating Financial Institution (as the case may be) to disclose information pertaining to your CDS account and other relevant information to us, the Issuing House and any relevant regulatory bodies (as the case may be).

(ix) You agree to accept out decision as final should we decide not to allot any Issue Shares to you.

15.7 AUTHORITY OF OUR DIRECTORS AND THE ISSUING HOUSE

Applicants will be selected in a manner to be determined by our Directors. Due consideration will be given to the desirability of allotting or allocating the Issue Shares to a reasonable number of applicants for the purpose of broadening our shareholding base and establishing an adequate market for our Shares.

The Issuing House, on the authority of our Directors, reserves the right to:

(i) reject Application Forms, Electronic Share Application and Internet Share Application (where applicable) which do not conform to the instructions in this Prospectus or are illegible, incomplete or inaccurate;

(ii) reject or accept any application, in whole or in part, on a non-discriminatory basis without assigning any reason; and

(iii) bank in all application monies including those from unsuccessful/partially successful.

If you are successful in your application, our Directors reserve the right to require you to appear in person at the registered office of the Issuing House within 14 days of the data of the notice issued to you to ascertain your application is genuine and valid. Our Directors are not responsible for any loss or non-receipt of the said notice nor shall they be accountable for any expenses Incurred or to he incurred by you for the purpose of complying with this provision.

15.8 OVER/UNDER-SUBSCRIPTION

In the event of over-subscription, the Issuing House will conduct a ballot in the manner approved by our Directors to determine acceptance of applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of allotting or allocating the Issue Shares to a reasonable number of applicants for the purpose of broadening our shareholding base and establishing an adequate market for our Shares.

Pursuant to the Listing Requirements, we need to have a minimum of 25% of our Shares for which listing is sought to be held by at least 200 public shareholders holding not less than 100 Shares each upon completion of our IPO and at the time of Listing. In the event that the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all applications will be refunded in full without interest.

In the event of an under-subscription, subject to the reallocation provisions as set out in Section 4.11.1. All the Issue Shares not applied for will be underwritten by the Joint Underwriters pursuant to the Underwriting Agreement.

15.9 UNSUCCESSFUL/PARTIALLY SUCCESSFUL AND REJECTED APPLICANTS

Application monies in respect of the unsuccessful/partially successful and rejected applicants will be refunded without interest in the following manner.

15.9.1 For applications by way of a White Application Form

(i) The application monies or the balance of it, as the case may be, will be refunded to you via the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account for purposes of cash dividend/distribution it you have provided such bank account information to Bursa Depository or by ordinary post to your address maintained with Bursa Depository (for partially successful and rejected applications) if you have not provided such bank account information to Bursa Depository within 10 Market Days from the date of the final ballot.

(ii) if your application was rejected because you did not provide a CDS account number, your application monies will be sent to the address stated in the NRIC or any valid temporary identity document issued by the National Registration Department or official valid temporary identity documents issued by the relevant authorities from time to time at your own risk.

(iii) A number of applications will be reserved to replace any balloted applications which are 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 item (i) or (ii) above (as the case may be).

(iv) The Issuing House reserves the right to bank in all application monies from unsuccessful applicants. These monies will be refunded by crediting into your bank account for purposes of cash dividend/distribution if you have provided such bank account information to Bursa Depository or by ordinary post to your address maintained with Bursa Depository or as per item (ii) above (as the case may be) within 10 Market Days from the date of the final ballot.

15.9.2 For applications by way of Electronic Share Application

(i) The issuing House shall inform the Participating Financial institutions of the non-successful or partially successful application within 2 Market Days after the balloting date. The application monies or the balance of it will be credited into your account without interest with the Participating Financial Institution within 2 Market Days after the receipt of confirmation from the Issuing House. You may check your account on the fifth Market Day from the balloting date.

(ii) Where your successfully balloted application under the Electronic Share Application is subsequently rejected, the full amount of your application monies will be refunded without interest to you by crediting into your account with the Participating Financial Institution.

(iii) A number of applications will be reserved to replace any balloted applications which are 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 no later than 10 Market Days from the date of the final ballot. For applications that are held in reserve and are subsequently unsuccessful (or only partly successful), the Issuing House shall inform the relevant Participating Financial Institutions of the non-successful or partly successful Applications within 2 Market Days after the final balloting date. The Internet Participating Financial Institutions will then credit the application monies (or any part thereof but without interest or any share of revenue or other benefit arising therefrom) into your account within 2 Market Days after the receipt of written confirmation from the Issuing House.

(iv) The Issuing House reserves the right to bank in all application monies from unsuccessful applicants. These monies will be refunded by crediting into your bank account for purposes of cash dividend/distribution if you have provided such bank account information to Bursa Depository or by ordinary post to your address maintained with Bursa Depository or as per item (ii) above (as the case may be) within 10 Market Days from the date of the final ballot.

15.9.3 For applications by way of Internet Share Application

(i) The issuing House shall inform the Internet Participating Financial Institutions of the non-successful or partially successful application within 2 Market Days after the balloting date. The Internet Participating Financial Institution will arrange with the Authorised Financial Institutions to credit the application monies or the balance of it into your account without interest or other benefit arising therefrom with the Authorised Financial Institution within 2 Market Days alter the receipt of confirmation from the Issuing House. You may check your account on the 5th Market Day from the balloting date.

15. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

(ii) Where your successfully balloted application under the Internet Share Application is subsequently rejected, the full amount of your application monies will be refunded without interest to you by crediting into your account with the Internet Participating Financial institution. A number of applications will be reserved to replace any balloted applications which are 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 Internet Participating/Financial Institution no later than 10 Market Days from the date of the final ballot. For applications that are held in reserve and are subsequently unsuccessful (or only partly successful), the Issuing House shall inform the relevant Participating Financial Institutions of the non-successful or partly successful Applications within 2 Market Days after the final balloting date. The Internet Participating Financial Institutions will then credit the application monies (or any part thereof but without interest or any share of revenue or other benefit arising therefrom) into your account within 2 Market Days after the receipt of written confirmation from the Issuing House.

15.9.4 For applications by way of a Blue Application Form

(i) The application monies or the balance of it, where an application is not accepted or is accepted in part only, as the case may be, will be refunded without interest to you and will be despatched to you within 10 Market Days from the date of the final ballot of the White Application Form.

(ii) The Share Registrar reserves the right to bank in all application monies from unsuccessful applicants. These monies will be refunded to you by ordinary post to your address maintained with Bursa Depository (as the case may be) within 10 Market Days from the date of the final ballot of the White Application Form.

15.10 SUCCESSFUL APPLICANTS

It you are successful in your application:

(i) The Issue Shares allotted to you will be credited into your CDS account. We will not be issuing any physical share certificates to you. 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.

(ii) A notice of allotment will be despatched to you at the address last maintained with Bursa Depository at your own risk prior to our Listing. This is your only acknowledgement of acceptance of the application.

15.11 ENQUIRIES

Enquiries in respect to the applications may be directed as follows:

Mode of application	Parties to direct the queries
Applications forms (except for the BLUE Application Forms)	Issuing House
BLUE Application Form only	Share Registrar
Electronic Share Application	Participating Financial Institutions

15. PROCEDURES FOR APPLICATION AND ACCEPTANCE *(Cont'd)*

Mode of application	Parties to direct the queries
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiih.online, **one Market Day** after the balloting date.

You may also check the status of your Application at the above website, **five Market Days** after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities.

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