5.21.1.2 Manufacture of new products in Vietnam

(a) Manufacture of PVAc polymer

PVAc polymer is manufactured through a polymerisation process, where the main input material, vinyl acetate, undergoes a chemical reaction where parameters such as temperature and pressure are controlled.

Since 1996, we have been using PVAc polymer that we purchased from external suppliers as base material for the production of our water-based adhesives. For the FYE 2015, FYE 2016, FYE 2017 and FYE 2018, we purchased approximately 907 tonnes, 1,300 tonnes, 1,304 tonnes and 1,241 tonnes, with costs representing 7.73%, 10.09%, 8.99% and 8.78% of our total cost of sales for the respective FYEs. Out of the total PVAc polymer purchased, we have utilised approximately 901 tonnes, 1,200 tonnes, 1,296 tonnes and 1,311 tonnes in the respective FYEs.

The following are the benefits of manufacturing our own PVAc polymer:

- control over the quality of PVAc polymer with the objective of achieving desired properties and characteristics such as viscosity and particle size. This would enable us to meet the requirements of our customers as well as their respective applications in different industries such as woodworking and paper and packaging sectors;
- reduce the lead delivery time by ensuring that the raw material is available when required;
- reduce reliance on external suppliers for the supply of PVAc polymer; and
- source of new revenue stream by selling PVAc polymer as our new product to customers.

Based on the above benefits, we have been conducting on-going R&D activities on the polymerisation process of the PVAc polymer since the first quarter of 2015. We are currently in the product compounding phase under the product development stage, and expect to commence production of PVAc polymer by the second quarter of 2020.

The polymerisation facility will be set-up as part of the new VSIP2 Factory Complex and following the commencement of operations, our Malaysia operations will be importing the PVAc materials to produce our water-based adhesives at our existing Shah Alam Factory Complex in Malaysia.

Upon commencement of production, we expect to use our own manufactured PVAc polymer for the following:

- approximately 30.00% for the production of our existing water-based adhesives;
- approximately 40.00% for the production of our new types of water-based adhesives as elaborated under Section 5.21.1.2 (b) of this Prospectus; and
- approximately 30.00% as new product to be sold directly to customers.

Our target market for our own manufactured PVAc polymer as a new product includes manufacturers from the woodworking, and paper packaging industries. Our planned marketing strategy would include:

- promoting the product by our sales and marketing personnel to our existing customers as well as potential customers; and
- utilising promotional material such as brochures and leaflets to create awareness of our Group's new product.

(b) Developing and manufacture of new types of water-based adhesives

As part of our product expansion strategies, we will be introducing new types of water-based adhesives using our own manufactured PVAc polymer as the base material to address opportunities in paper and packaging applications in Vietnam. This is ideal for paper lamination purposes due to fast drying and strong water resistant properties.

In paper lamination, the water-based adhesive is applied onto the surfaces of the paper sheets that are to be joined together, except for the exposed top and bottom surfaces. This paper lamination technique can be used to manufacture products such as cardboard carton boxes, and food and beverage packages with interior surfaces lined with plastic or metal foil.

Other than paper and packaging, we also intend to develop and manufacture new types of water-based adhesives with our own manufactured PVAc polymer as the base material to obtain desired properties such as viscosity and particle size, and higher water resistance that complies with the D3 class of the DIN EN 204 standard for woodworking applications.

Our target market for these new types of water-based adhesives include manufacturers that will use them in paper lamination to produce food and beverage packages with interior surfaces lined with plastic or metal foil, and cardboard carton box manufacturers (for paper and packaging applications), and wooden-based furniture manufacturers (for woodworking application).

Our planned marketing strategy in Vietnam for the above products, include:

- our sales and marketing personnel will promote the product and educate potential customers as to the product's benefits;
- promoting our brand by attending exhibitions, and through our distributors;
- utilising promotional material such as brochures and leaflets to create awareness of the new product's features.

We have been conducting on-going R&D activities on these new types of water-based adhesives since the first quarter of 2015. We are currently in the product development stage and intend to commence the manufacturing of these new types of water-based adhesives using our own manufactured PVAc polymer by the second quarter of 2020.

5.21.2 Malaysia Operations

5.21.2.1 Expanding on our production facilities in Malaysia

As at the LPD, we are producing water-based and hot melt adhesives, and sealants in Malaysia. Part of our strategies is to expand on our existing production facilities in the Shah Alam Factory Complex, via the Shah Alam Phase 1 Expansion and Shah Alam Phase 2 Expansion to address continuing business opportunities within the woodworking, paper and packaging, and building and construction industries.

In this respect, we intend to acquire additional machinery and equipment to produce new types of hot melt adhesives and sealants which will provide us with the following additional planned production capacity:

Types of production line	Number of lines	[(a)] Planned annual production capacity (Tonnes)
Hot melt adhesives	2	3,120
Sealants (water-based)	1	2,246
Sealants (solvent based)	1	1,248

Note:

(a) Based on the estimation that the manufacturing facilities at our Shah Alam Factory Complex will be in operation for 10 hours per day, 26 working days per month (equivalent to 312 days per year).

The total estimated cost for the Shah Alam Phase 1 Expansion and Shah Alam Phase 2 Expansion are as follows:

	Estimated cost (RM'000)	Source of funds: Internal generated funds (RM'000)	Source of funds: IPO proceeds (RM'000)
Shah Alam Phase 1 Expansion:			
One line of hot melt adhesives production	1,329	√	-
Two lines of sealants production	548	√	-
Total	**1,877**		
Shah Alam Phase 2 Expansion:			
One line of hot melt adhesives production	3,500 to 3,700	√	√
One packing machine	520 to 550	√	√
New laboratory equipment	420 to 450	√	√
Total	**4,440 to 4,700**		

Kindly refer to Section 2.8 of this Prospectus for further details on the list of machineries and equipment required for the expansion in our Shah Alam Factory Complex.

Shah Alam Phase 1 Expansion

We commenced the installation of one new manufacturing line for the production of new types of high viscosity hot melt adhesives for woodworking and bookbinding applications, as well as two new manufacturing lines for the production of modified hybrid sealants for building and construction and woodworking applications at our Shah Alam Factory Complex in November 2017. The total estimated cost for the Shah Alam Phase 1 Expansion is RM1.88 million, with an initial expenditure of RM1.71 million as at the LPD.

The Shah Alam Phase 1 Expansion is expected to be completed by the fourth quarter of 2018, and we expect to commence manufacturing operations by the first quarter of 2019.

Shah Alam Phase 2 Expansion

Our Shah Alam Phase 2 Expansion involves the installation of a second new production line for low viscosity hot melt adhesives for paper and packaging, and mattress applications as well as one new packing machine, and purchasing new laboratory equipment. The total estimated cost for Shah Alam Phase 2 Expansion is RM4.44 million to RM4.70 million. We intend to use RM4.50 million from the IPO proceeds to finance the Shah Alam Phase 2 Expansion. The remaining balance of the costs (if any) will be financed via our internally generated funds. The Shah Alam Phase 2 Expansion is expected to commence by the first quarter of 2019, and is expected to complete by the second quarter of 2019. We expect to commence the manufacturing operations by the third quarter of 2019.

We may also consider further expanding our manufacturing operations in Malaysia in the middle to long term future via the setting up of a new factory, should our other export markets grow substantially.

5.21.2.2 Develop and manufacture of new types of adhesives

(a) New type of hot melt adhesives

We intend to manufacture the following new range of hot melt adhesives using a new polymer base material, namely polypropylene:

(i) new high viscosity hot melt adhesives will provide higher resistance to chemical solvents, such as turpentine and petrol, which makes them ideal for edge banding wooden-based furniture making with stronger adhesion, particularly office and household furniture. Our target market for the new high viscosity hot melt adhesives include manufacturers of furniture and other wooden products that are exposed to chemical solvents.

We are currently carrying out R&D activities to develop the new high viscosity hot melt adhesives. As at this juncture, we have completed the performance testing stage and we expect to commence manufacturing this new range of high viscosity adhesives by the first quarter of 2019 upon completion of the Shah Alam Phase 1 Expansion; and

(ii) new low viscosity hot melt adhesives, it will provide higher heat resistance and stronger adhesion for the paper and packaging applications, particularly for carton sealing. Our target market for the new low viscosity hot melt adhesives includes manufacturers of food and beverage packages.

We are currently carrying out R&D activities to develop the new low viscosity hot melt adhesives. As at this juncture, we have completed the product testing phase under the product development stage. We are currently undertaking certain adjustments to the formulation and we expect to commence manufacturing this new range of low viscosity adhesives by the third quarter of 2019 upon completion of the Shah Alam Phase 2 Expansion.

Our planned marketing strategy in Malaysia for the abovementioned high and low viscosity hot melt adhesives, include:

- our sales and marketing personnel will promote the products and educate potential customers as to the products' benefits;
- promoting our brand by attending exhibitions; and
- utilising promotional material such as brochures and leaflets to create awareness of the new products' features.

(b) New types of water-based sealants, and modified hybrid industrial adhesives and sealants

As part of our expansion plans, we intend to manufacture new types of water-based sealants, and both modified hybrid industrial adhesives and sealants using the new production lines to be installed at our Shah Alam Factory Complex:

(i) new types of water-based sealants using a new base material, namely vinyl acetate ethylene, which will provide better crack resistance and low odour for building and construction application.

We are currently undertaking R&D to develop the new water-based sealants. As at this juncture, we have completed the performance testing stage and we expect to commence manufacturing this new range of water-based sealants by the first quarter of 2019 upon completion of the Shah Alam Phase 1 Expansion;

(ii) new types of both modified hybrid industrial adhesives and sealants. The new modified hybrid industrial adhesives is ideal for difficult to bond wood substrate such as thermal treated wooden-based products for the woodworking industry as it provides better water resistance and stronger adhesion.

Our new modified hybrid industrial sealants provide high water resistance and strong adhesion to bond wide variety of construction materials such as metal, wood and cement, which are suitable for outdoor building and construction application.

We are currently undertaking R&D to develop modified hybrid industrial adhesives and sealants. As at this juncture, we have completed the performance testing stage and are undertaking certain adjustments to the formulation of these modified hybrid industrial adhesives and sealants. We anticipate that the adjustment phase will take not more than nine months. As a result, we intend to commence manufacturing these new products by the third quarter of 2019, upon completion of the Shah Alam Phase 2 Expansion.

5.22 Exchange Controls

As at the LPD, save as set out below, there are no governmental laws, decrees, regulations or other requirements which may affect the repatriation of capital and the remittance of profit of our Vietnam subsidiaries to Malaysia:

(a) under the laws of Vietnam, the capital and / or profits of a corporation incorporated in Vietnam may be repatriated and / or remitted to its foreign investors in the following manner:

(i) in the case of Techbond Vietnam - share buy-backs in accordance with Article 52 of the Law on Enterprises 2014, and Article 11 of Techbond Vietnam's Charter;

(ii) in the case of Techbond Vietnam - capital reduction in accordance with Article 68 of the Law on Enterprises 2014, and Article 14 of Techbond Vietnam's Charter; and

in the case of Techbond Mfg Vietnam - capital reduction in accordance with Article 87 of the Law on Enterprises 2014, and Article 10 of Techbond Mfg Vietnam's Charter;

(iii) distribution of capital and profits on a winding-up in accordance with Article 202.6 of the Law on Enterprises 2014, Article 33 of Techbond Vietnam's Charter and Article 23 of Techbond Mfg Vietnam's Charter;

(iv) in the case of Techbond Vietnam - declaration and payment of dividend / profit in accordance with Article 69 of Law on Enterprises 2014 and Article 30 Techbond Vietnam's Charter; and

in the case of Techbond Mfg Vietnam - declaration and payment of dividend / profit in accordance with Articles 75.1(l) and 76.6 of Law on Enterprises 2014 and Articles 11.4 and 12.6 Techbond Mfg Vietnam's Charter.

(b) The laws of Vietnam also provides that the matters mentioned in Section 5.22 (a)(iv) above shall be subject to the following:

(i) the corporation may distribute profit to their owner / members only when it generates profit from its business and have fulfilled their tax obligations and other financial obligations in accordance with the law, and must ensure that due debts and other property obligations are able to be paid in full after distribution of profit;

(ii) foreign investors shall be permitted to remit profit overseas annually or on termination of their direct investment activities after the corporation has fully discharged its financial obligations (such as tax and insurance payment) to the State of Vietnam in accordance with the law and has lodged the audited financial statements and corporate income tax finalisation declaration with the tax authority; and

(iii) the corporation must send a report to the tax authority at least seven working days before implementation under Article 5 of Circular No.186/2010/TT-BTC dated 18 November 2010 of the Ministry of Finance, guiding the remittance abroad of profits earned by foreign investors from their direct investment in Vietnam under the Investment Law.

Save as disclosed above, the repatriation of capital and the remittance of profit of our Vietnam subsidiaries to Malaysia are not subject to any other taxes or restrictions from the foreign investment policies in Vietnam or foreign exchange administrative rules in Malaysia.

In addition, all corporations in Malaysia are required to adopt single-tier dividends. All dividends distributed by Malaysian resident companies under a single-tier dividend are not taxable. Further, the Government of Malaysia does not levy withholding tax on dividends payment. Therefore, there is no withholding tax imposed on dividends paid to non-residents by Malaysian companies. There is no Malaysian capital gains tax arising from the disposal of listed shares. Save as disclosed above, there are no governmental laws, decrees, regulations or other requirements which may affect the repatriation of capital and the remittance of profit by our Company.

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®

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16 October 2018

The Board of Directors
Techbond Manufacturing Sdn Bhd
No 36, Jalan Anggerik Mokara
31/59 Kota Kemuning
40640 Shah Alam
Selangor, Malaysia

Dear Sirs and Madam

Independent Industry Assessment on Industrial Adhesives in Malaysia and Vietnam

We, Vital Factor Consulting Sdn Bhd (Vital Factor), are an independent business consulting and market research company in Malaysia. We commenced our business in 1993 and, among others, our services include development of business plans incorporating financial assessments, information memorandums, commercial due diligence, feasibility and financial viability studies, and market and industry studies. We have been involved in corporate exercises since 1996, including initial public offerings and reverse takeovers for public listed companies on Bursa Malaysia Securities Berhad (Bursa Securities), acting as the independent business and market research consultants.

We have been engaged to provide an independent industry assessment on the above subject for inclusion into the prospectus of Techbond Group Berhad in relation to its listing on the Main Market of Bursa Securities. We have prepared this report in an independent and objective manner and had taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Our report includes assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. While such statements are made based on, among others, secondary information, primary market research, and after careful analysis of data and information, the industry is subjected to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results. In light of these and other uncertainties, the inclusion of assessments, opinions and forward-looking statements in this report should not be regarded as a representation or warranty that our assessment is justifiable. We therefore advise investors not to place undue reliance on such statements and, where relevant, to seek further expert advice.

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from The University of New South Wales, Australia and a degree in Master of Business Administration from The New South Wales Institute of Technology (now known as University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute, and Institute of Managers and Leaders, Australia (formerly known as the Australian Institute of Management). He has more than 20 years of experience in business consulting and market research, as well as corporate finance for initial public offering exercises for companies seeking listing on Bursa Securities.

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INDEPENDENT INDUSTRY ASSESSMENT ON INDUSTRIAL ADHESIVES IN MALAYSIA AND VIETNAM

1. TECHBOND GROUP AND REPORT FOCUS

- Techbond Group Berhad and its subsidiaries, herein referred to as "Techbond Group", is mainly involved in developing and manufacturing industrial adhesives. A small proportion of its revenue is derived from the manufacture of sealants. Techbond Group's manufacturing operations are located in Malaysia and Vietnam, and these two countries also represent its main markets. The major user industries for Techbond Group's industrial adhesives are for woodworking, and paper and packaging applications, while sealants are mainly used for building and construction applications.

- As such, this report will cover industrial adhesives in Malaysia and Vietnam focusing on woodworking, paper and packaging, and building and construction user industries. Industrial adhesives are used as part of the manufacturing or building process and therefore this report does not cover consumer-based adhesive products commonly found in stationery outlets. All references to adhesives in this report refers to industrial adhesives. This report will also include information on sealants as this will be one of the areas of business expansions for Techbond Group.

2. OVERVIEW OF INDUSTRIAL ADHESIVES

Liquid Adhesives

- Industrial adhesive, commonly known as glue, is mainly used to bond two objects together. These objects may be of the same material, for example bonding two pieces of wood together, or different materials such as a piece of wood bonded onto a metal plate. Industrial adhesive is also used to bond things together to form a product. One such example is particleboard, where industrial adhesive is used as the main material to bond woodchips together to form a wooden board.

- Industrial adhesives may be made from natural materials such as plant-based materials including rubber, starch and resins, or animal-based materials comprising milk protein such as casein, as well as protein derived from animal parts such as hide, bones, skin and tendons.

- Techbond Group manufactures industrial adhesives from synthetic materials, including polyvinyl acetate, polyvinyl alcohol, acrylic, ethylene vinyl acetate, styrene butadiene and hydrocarbon resins.

Plastics used in Manufacturing Adhesives

- Synthetic materials used in making industrial adhesives largely consist of polymers* which include the following:
  - **Elastomers** are materials that are elastic or may be elongated to a certain point without breaking. Some examples of elastomers used in the manufacture of industrial adhesives include polyurethane, styrene-butadiene, neoprene and silicone.
  - **Thermoplastics** are plastics that soften or melt when they are heated, and will harden when cooled or cured. This process can be repeated several times and the material will still retain most of its original properties. Some examples of thermoplastics used in the manufacture of industrial adhesives include polyvinyl acetate, polyamide and acrylic.
  - **Thermosets** are plastics that are initially in a liquid or soft solid form, and will harden into a solid form when cured. Curing and hardening cannot be reversed. The curing method depends on the types of thermoset involved and include heating and mixing with a hardener. Some examples of thermosets used in manufacturing industrial adhesives include epoxy, polyurethane, cyanoacrylate and melamine.

* Polymers comprise long chain or network of linked monomers. Monomers are the basic unit of a compound or molecule. Polymers may refer to synthetic materials like plastics, and natural materials such as plant cellulose and protein.

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3. TYPES OF INDUSTRIAL ADHESIVES

- Generally, industrial adhesives are segmented into hot melt, water-based and solvent-based adhesives. Techbond Group manufactures both hot melt and water-based adhesives but not solvent-based adhesives.

  (i) **Water-based adhesives** are made from a mixture of base adhesives and additives (if present) that are dispersed or dissolved in water. If the base adhesive and additives are dissolved in water, then the water-based adhesive is also known as "solution" type of adhesive. If the base adhesive and additives cannot be dissolved in water, they are then dispersed in the water as small particles. Such water-based adhesives are known as "emulsion" type of adhesive. Some emulsion type water-based adhesives can accept the presence of solid filler material to form an adhesive paste, which can be used for floor tiles and wall panels.

  The base adhesive is usually a thermoplastic or elastomer. Many water-based adhesives require that at least one of the surfaces to be joined together is permeable, so that water can escape. This drying action leaves behind the adhesive, which results in curing and the creation of a bond between the surfaces.

  Some examples of base adhesives that are commonly used to produce water-based adhesives include gelatin-based, starch-based, methyl cellulose, casein-based, polyvinyl alcohol, styrene butadiene, polyvinyl acetate, vinyl acetate copolymers, polyacrylates, polyvinylidene chloride, polychloroprene and polyurethane.

  Techbond Group develops and manufactures water-based adhesives using polyvinyl alcohol, polyvinyl acetate, ethylene vinyl acetate, styrene butadiene (emulsion form), acrylic, styrene acrylic and casein.

  (ii) **Hot melt adhesives** are essentially thermoplastics, which are plastic materials that can be softened by heating, and will harden when cooled. Hot melt adhesives are sold at ambient temperature, however once they are heated above the softening point, they melt and become liquid. This makes it easy to be applied onto one or more of the surfaces to be joined. The hot melt adhesive solidifies and cures as it cools, which will increase the bonding strength.

  Hot melt adhesive at ambient temperature

  Some examples of base adhesives that are commonly used to produce hot melt adhesives include ethylene vinyl acetate, high density polyethylene, low density polyethylene, and other polymer and thermoplastic based materials.

  Techbond Group currently develops and manufactures hot melt adhesives using polyethylene and polypropylene, hydrocarbon and hydrogenated resin, ethylene vinyl acetate, and non-polymer materials such as gum rosin and rosin ester.

  (iii) **Solvent-based adhesives** are made from a mixture of the base adhesive and additives (if any), that are dissolved in a solvent. The base adhesive normally comprises a polymer, while the solvent is normally a volatile organic compound (VOC). VOC are emitted as gasses under ambient temperature, some of which may have adverse health effects. In general, there are two main classes of solvent adhesives, namely wet bonding and contact adhesives. With wet bonding adhesives, the solvent adhesive is applied to one or more of the surfaces that are to be bonded. The surfaces are held together while the adhesive is still in liquid state. The solvent then evaporates, leaving the main adhesive and additives behind to harden and cure. This results in bonding of the surfaces. With contact adhesives, the solvent adhesive is applied to one or more of the surfaces that are to be bonded. Permanent bond strength is built over time as the adhesive cures.

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4. NON-REACTIVE AND REACTIVE ADHESIVES

- Generally, industrial adhesives are also segmented into non-reactive and reactive adhesives. Techbond Group manufactures both non-reactive and reactive adhesives.

  (i) **Non-reactive adhesives** are those that are present in their final chemical composition when applied. They can be cured and achieve their bonding properties without any chemical reactions. They are also known as drying adhesives or physically hardening adhesives.

  Some examples of water-based adhesives for woodworking applications are made from base adhesive and additives that are mixed in water. They are applied onto the surfaces of the wood pieces, before they are bond together. The curing process involves drying, where the water evaporates leaving behind the base adhesive and additives. The base adhesive and additives then hardens, thus forming the adhesive that holds the pieces together.

  (ii) **Reactive adhesives** require chemical reactions to occur for the adhesive to cure and achieve their bonding properties. In general, there are two types of reactive adhesives, namely single component and two-component reactive adhesives. Techbond Group manufactures both single and two-component reactive adhesives.

  (a) Single Component Reactive Adhesives

  Single component reactive adhesives are premixed in their final proportion. The adhesive does not cure because the adhesive component is chemically blocked. The chemical reactions that result in curing and bonding only occur when the adhesive is subjected to specific conditions. Some examples of single component reactive adhesives categorised by their respective curing conditions include the following:
  - Anaerobic curing, where the presence of oxygen inhibits the chemical reactions that result in curing and bonding. Curing only occurs when there is no oxygen present;
  - Heat curing, where curing only occurs after the temperature of the adhesive has been raised to a certain range for a specified period;
  - Moisture curing, where the adhesive must be exposed to moisture to trigger curing;
  - Radiation curing, where curing is initiated by exposing the adhesive to light of a certain wavelength, for example ultra violet rays.

  (b) Two-Component Reactive Adhesives

  A two-component reactive adhesive commonly comprise 'resin' and 'hardener'. The resin contains the polymer chains while the hardener consists of chemicals that trigger the cross-linking reaction that forms the bonds between individual polymer chains. This results in curing and bonding. The resin and hardener are stored separately to prevent chemical reaction from occurring. They are mixed together in the prescribed ratio just before or during the application of the adhesive onto the surfaces that are to be bonded, and the curing reaction occurs. Some examples of base adhesives that are used to produce two-component reactive adhesives include epoxy, methyl methacrylate and urethane.

5. SEALANTS

- Techbond Group manufactures two main types of sealants for building and construction applications. The following discussion explains the usage and applications of sealants.

- Typically, sealants are used to fill gaps between two or more objects when they are assembled together. Sealants also function to bond two or more objects as well as to act as a physical barrier to prevent particles, moisture, liquids or gases from passing through.

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- In some cases, the base materials used to manufacture sealants are similar to some types of base adhesive materials. As such, it is common for manufacturers of adhesives to also manufacture sealants. Sealants generally contain large amounts of inert filler materials, mainly for cost reduction and gap filling purposes. Sealants also contain elastomeric resins to provide flexibility and elongation.

Sealants used to hold and to fill the gaps between two glass panels

- Some of the industries that use sealants are as follows:
  - Building and construction industry: It is one of the main markets for sealants as they are used for a broad range of applications, from exterior to interior of a building. Some examples include sealing of joints around bathroom surfaces and kitchen fixtures, glass panels and pre-cast concrete panels.
  - Automotive industry: Sealants are utilised in various stages of vehicle production, component manufacturing and assembly. Some examples include sealing of acoustic insulation parts in doors and engine compartments, air intake modules and welds.

6. SUPPLY AND DEMAND

- The supply and demand for industrial adhesives and sealants in Malaysia and Vietnam have direct bearings on Techbond Group as it operates and markets a significant proportion of its products in Malaysia and Vietnam. Supply and demand performance will provide indications of growth trends, sustainability of the industry, and general market size of industrial adhesives and sealants. Indicators of supply include imports and local production, while demand include local consumption and exports.

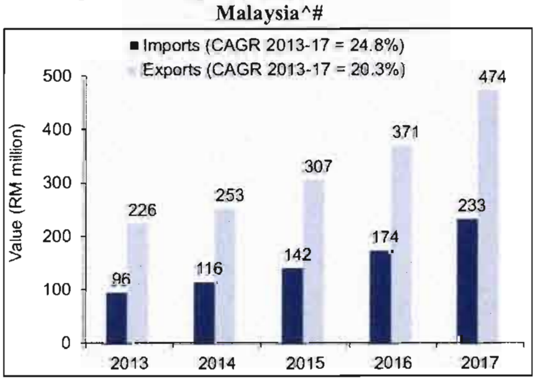
- Exports also indicate the acceptability of local manufactured products in foreign countries. This is important as exports enlarge the overall addressable market size as well as reduce dependency on the local market for local manufacturers. Official statistics for Malaysia and Vietnam are only available for imports and exports. Latest available statistics for Malaysia are up to 2017, while the latest available statistics for Vietnam are up to 2016.

6.1 Industrial adhesives in Malaysia

- Malaysia is a net exporter of industrial adhesives, with exports exceeding imports by RM241 million# in 2017.

- Malaysia mainly imports industrial adhesives from China, South Korea, United States and Japan, which accounted for 27.4%#, 14.7%#, 12.4%# and 11.8%# of the total import value in 2017 respectively. In 2017, Indonesia and China were the two largest export markets for Malaysia's industrial adhesives, which accounted for 28.1%# and 16.7%# of the total export value respectively.

Imports and Exports of Industrial Adhesives in Malaysia^#



- Trends in quantity is useful to provide an indication of real growth as it eliminates the influence of changes in selling prices and foreign exchange rates over the period of assessment. Between 2013 and 2017, import quantity of industrial adhesives in Malaysia grew at a compound annual growth rate (CAGR) of 26.5%#, reaching 15,262 tonnes^, with a growth of 19.8%# in 2017. Between 2013 and 2017, export quantity of industrial adhesives from Malaysia grew at a CAGR of 14.5%#, reaching 45,701 tonnes#, with a growth rate of 20.5%# in 2017.

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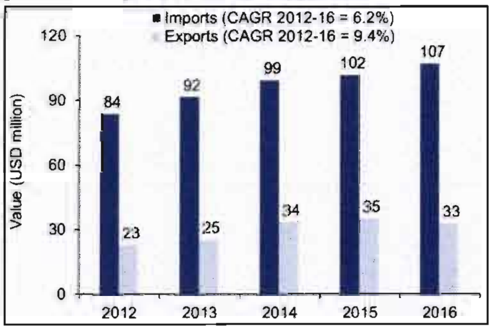
- It is noted that in some cases, Malaysia imports and exports from the same country, such as China. This is because there are many types of industrial adhesives with differing specifications in terms of properties and characteristics used in a wide array of applications. As such, there are opportunities for Malaysian industrial adhesive manufacturers to address poorly served segments of the market in foreign countries. Similarly, it is not possible for Malaysian manufacturers to comprehensively cover all types and specifications of industrial adhesives used in Malaysia, thus necessitating imports of industrial adhesives.

- Overall growth in imports indicate continuing demand for the products from end users, and suggests that local manufacturers have opportunities for import substitution, while growth in exports indicate that there is demand for Malaysian-manufactured industrial adhesives in other countries. These factors indicate continuing demand to provide growth, therefore creating opportunities for industrial adhesive manufacturers in Malaysia.

(Source: ^ Department of Statistics, Malaysia and # computed by Vital Factor)

6.2 Industrial adhesives in Vietnam

Imports and Exports of Industrial Adhesives in Vietnam^#



- Vietnam is a net importer of industrial adhesives, with imports exceeding exports by USD74 million# in 2016. As a net importer country, industrial adhesive manufacturers in Vietnam have the added opportunity to grow their business through import replacement.

- While Vietnam's imports experienced growth, the size of the growth has tapered off somewhat from 10.7%# in 2012 to 2.4%# in 2015, and increased slightly to grow by 4.9%# in 2016. As there were no production statistics available from authorities, it is uncertain if the lower import growth was attributed to local production replacing imports, or generally demand for industrial adhesive has been facing slower growth. In 2016, Vietnam mainly imports industrial adhesives from China, Taiwan and Korea, which accounted for approximately 31.8%#, 17.4%# and 14.3%# of total import value of industrial adhesives respectively.

- In 2016, export value of industrial adhesives from Vietnam declined by 5.7%#. In 2016, the three largest export markets for Vietnam's industrial adhesives were Cambodia, Indonesia and China, which accounted for approximately 27.0%#, 13.5%# and 12.7%# of the total export respectively.

- In terms of quantity, between 2013 and 2016, import quantity of industrial adhesives in Vietnam grew at a CAGR of 10.9%#, reaching 31,103 tonnes# with growth of 17.4%# in 2016. Between 2013 and 2016, export quantity of industrial adhesives from Vietnam grew at a CAGR of 16.6%#, reaching 10,355 tonnes# with growth rate of 11.5%# in 2016.

- Growing imports show that end users continue to use industrial adhesives and that there are import substitution opportunities for manufacturers in Vietnam, while growing exports indicate that there is increasing demand in other countries for industrial adhesives manufactured in Vietnam. The overall growth in imports and exports of industrial adhesives indicates a continuing demand to provide growth, and thus providing opportunities for industrial adhesive manufacturers in Vietnam.

(Source: ^ General Statistics Office of Vietnam and # computed by Vital Factor)

6.3 Sealants in Malaysia

- Between 2013 and 2017, import value of sealants in Malaysia grew at a CAGR of 18.3%#, reaching RM378 million^ with a growth of 2.7%# in 2017. This indicates a sustainable and growing market for sealants. In 2017, Malaysia's import of sealants was mainly from the United States, South Korea and Japan, which accounted for 21.7%#, 15.8%# and 12.3%# of the total import value of sealants respectively.

- In terms of quantity, between 2013 and 2017, import quantity of sealants in Malaysia grew at a CAGR of 14.3%#, reaching 22,622 tonnes^ with a growth of 9.3%# in 2017. The high growth in import quantity provides opportunities for import replacement by sealant manufacturers in Malaysia.

- Malaysia is a net exporter of sealants, with exports exceeding imports by RM64 million# in 2017. Between 2013 and 2017, Malaysia's export value of sealants grew at a CAGR of 14.1%#, reaching RM442 million^ with a growth of 6.5%# in 2017. This indicates a sustainable and growing export market for Malaysia's sealants. In 2017, Singapore represented the largest export market having accounted for 21.4% #of total sealant exports from Malaysia.

- Between 2013 and 2017, export quantity of sealants from Malaysia grew at a CAGR of 24.1%#, reaching 212,681 tonnes^ in 2017. The overall growth in export quantity indicates the capability of sealant manufacturers in Malaysia to address export markets.

- The overall growth in imports and exports of sealants indicate a continuing demand and opportunities for sealant manufacturers in Malaysia.

(Source: ^ Department of Statistics, Malaysia and # computed by Vital Factor)

6.4 Sealants in Vietnam

- Between 2012 and 2016, import value of sealants in Vietnam grew at a CAGR of 17.7%#, reaching USD72 million^ with growth rate of 22.6%# in 2016. This indicates a growing market for sealants. In 2016, Vietnam's import of sealants was mainly from South Korea, Thailand and Japan, which accounted for 30.4%#, 18.4%# and 13.4%# of the total import value respectively.

- Based on latest available statistics, Vietnam imported 16,609 tonnes^ of sealants which represented 16.2%# growth in 2014.

- Vietnam is a net importer of sealants, with imports exceeding exports by USD69 million# in 2016. Between 2012 and 2016, Vietnam's export value of sealants grew at a CAGR of 34.7%#, reaching USD3 million# in 2016. While growth rates were high, the export values were low, indicating that few Vietnam manufacturers were actively exporting their products. In 2016, Vietnam export its sealants mainly to Asia with Indonesia as its largest market having accounted for 60.7%# of total export value of sealants.

- Between 2013 and 2016, Vietnam's export quantity of sealants grew at a CAGR of 37.6%# to 2,255 tonnes^ with growth of 14.9%# in 2015.

(Source: ^ General Statistics Office of Vietnam and # computed by Vital Factor)

6.5 PVAc in Vietnam

- Polyvinyl acetate (PVAc) is used as a base material for some water-based adhesives. Vietnam is a net importer of PVAc, with the value of imports exceeding exports by USD3 million#, and import quantity exceeded exports by approximately 32 times^ in 2016. Between 2012 and 2016 the quantity of PVAc imported into Vietnam grew at a CAGR of 2.0%# to 1,993 tonnes^ in 2016, although import value declined at CAGR of -1.3%# to USD3 million^. During the same period, the export value and quantity of PVAc in Vietnam decreased at an annual rate of 32.0%# and 34.6%# respectively, reaching USD76,000^ and 62 tonnes^ in 2016.

- The growth in the quantity of PVAc imported into Vietnam, and the relatively large volume of imports compared to exports indicates that there are opportunities for manufacturers to manufacture the product in Vietnam, and benefit from import substitution.

(Source: ^ General Statistics Office of Vietnam and # computed by Vital Factor)

7. DEMAND DEPENDENCIES AND PROSPECTS OF THE INDUSTRY

- The demand for and prospects of industrial adhesives and sealants is highly dependent on the performance of their main user industries. Growing user industries would translate to increasing demand for industrial adhesives and sealants, thus providing sustainability and growth opportunities for manufacturers. In addition, demand and prospects are influenced by the performance of the economy as a whole. The focus in this section would be on the main user industries of Techbond Group for its industrial adhesives and sealants, and general economic conditions in Malaysia and Vietnam.

Malaysia	CAGR# 2013–2017	Growth(5)# 2017	Value^ 2017
Manufacture of wooden and cane furniture	5.9%	8.1%	RM5.3 billion (3)
Manufacture of corrugated paper and paperboard	3.2%	19.1%	RM4.1 billion (3)
Value of building and construction work done	11.1%	9.2%	RM138.5 billion (4)
Gross domestic product (GDP) of construction sector	8.5%(1)	6.7%(1)	RM65.2 billion(2)

Notes: (1) Real GDP (2) Nominal GDP (3) Sales value (4) Value of work done (5) Year on year growth in value in 2017 compared to 2016.
(Source: ^ Department of Statistics, Malaysia and # computed by Vital Factor)

The prospects of manufacturers of industrial adhesives and sealants in Malaysia are supported by the large market size of the user industries in Malaysia based on production value, value of work done and GDP. In addition, Malaysia's economy expanded with real GDP growing at a CAGR of 5.3%# between 2013 and 2017, with growth recorded every year during this period. Real GDP is projected to grow by between 5.0% and 5.5% in 2018^. These factors would continue to provide opportunities for manufacturers of industrial adhesives and sealants in Malaysia.
(Source: ^ Bank Negara Malaysia and # computed by Vital Factor)

Vietnam	CAGR# 2013–2017	Growth(3)# 2017	Value^ 2017
Index of manufacture of furniture	7.5%	8.2%	
Index of manufacture of paper and paper products	11.1%	10.2%	
Index of manufacture of corrugated paper and paperboard	6.0%	6.9%	
GDP of the construction sector	9.1%(1)	8.7%(1)	VND287.1 trillion(2) *(RM54.26 billion)**

* Based on the 2017 annual average exchange rate of VND100 = RM0.0189.
Notes: (1) Real GDP (2) Nominal GDP (3) Year on year growth in value in 2017 compared to 2016.
(Source: ^ General Statistics Office of Vietnam and # computed by Vital Factor)

Similarly, the continuing growth of the four user industries in Vietnam would also continue to support the prospects for manufacturers and exporters of industrial adhesives and sealants in Vietnam. The Vietnamese economy also expanded, with real GDP growing at a CAGR of 6.4%# between 2013 and 2017, with growth recorded every year during this period. In addition, Vietnam has a large population of 93.7^ million people in 2017 that grew at a CAGR of 1.1%# between 2013 and 2017. Taken together these factors would continue to offer opportunities for manufacturers and exporters of industrial adhesives and sealants in Vietnam to grow.
(Source: ^ General Statistic Office of Vietnam and # computed by Vital Factor)

8. COMPETITIVE ANALYSIS

Operators in Malaysia and Vietnam

- Some of the manufacturers of industrial adhesive and/or sealants in Malaysia and Vietnam are listed below in descending order based on their latest available revenue figures:

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Malaysia

Company	Types of products			FYE	Revenue[(1)] (RM '000)	GP (RM '000)	GP margin (%)	PAT (RM '000)
	IA	CA	S					
3M Malaysia Sdn Bhd[(2)]	√	√	√	31/12/17	604,555	119,565	19.8	5,101
Henkel (Malaysia) Sdn Bhd[(4)]	√	√	√	31/12/17	308,578	98,527	31.9	20,534
Sika Kimia Sdn Bhd[(6)]	√		√	31/12/17	175,027	79,790	45.6	21,045
Mohm Chemical Sdn Bhd	√	√	√	31/12/17	124,207	n.a	n.a	18,607
Bostik Findley (Malaysia) Sdn Bhd	√	√	√	31/12/17	119,902	34,970	29.2	4,259
Adtek Malaysia Sdn Bhd.	√			31/12/16	117,678	10,500	8.9	1,888
Mapei Malaysia Sdn Bhd	√		√	31/12/17	106,875	37,061	34.7	10,519
Vital Technical Sdn Bhd	√	√	√	31/12/14	98,924	27,529	27.8	12,795
Techbond Group	√		√	**30/6/18**	**86,811**	**25,409**	**29.3**	**13,420**
H.B. Fuller Adhesives Malaysia Sdn Bhd[(3)]	√	√	√	2/12/17	85,164	17,012	20.0	1,974
Jowat Manufacturing (SEA) Sdn Bhd	√			31/12/17	76,994	19,178	24.9	2,066
Affluent Cycle Industries Sdn Bhd	√		√	31/12/17	65,136	9,656	14.8	4,078
Malayan Adhesives & Chemicals Sdn Bhd	√			31/12/17	63,572	14,754	23.2	6,489
GB Chemical (M) Sdn Bhd	√			31/12/17	43,641	11,708	26.8	3,253
Saint-Gobain Weber (M) Sdn Bhd	√			31/12/17	32,432	12,066	37.2	431
Wilron Products Sdn Bhd	√			31/12/17	31,933	8,120	25.4	2,185
GRP Sdn Bhd	√		√	31/12/17	30,754	8,192	26.6	2,080
Kumpulan Kesuma Sdn Bhd[(5)]	√		√	31/5/17	13,444	4,922	36.6	2,108
Dardanchem Sdn Bhd	√			31/12/17	8,544	1,460	17.1	120
Chemibond Enterprise Sdn Bhd	√	√	√	30/6/17	4,356	1,617	37.1	183
Sunbond Adhesive (M) Sdn Bhd	√		√	31/12/17	3,431	n.a	n.a	191
ACME Adhesive Industries Sdn Bhd	√		√	30/6/17	2,114	221	10.5	98

IA = Industrial adhesives; CA = Consumer-based adhesives; S = Sealants; FYE = Financial year ended; PAT = Profit after tax; GP = Gross profit; n.a = not available. (1) May include revenue from other business activities. (2) Subsidiary company of 3M Company listed on the New York Stock Exchange (NYSE). (3) Subsidiary company of H.B. Fuller Company listed on the NYSE. (4) Subsidiary company of Henkel AG & Co. KGaA listed on the Frankfurt Stock Exchange. (5) Subsidiary company of Nylex (Malaysia) Berhad listed on the Bursa Securities. (6) Subsidiary company of Sika AG listed on the SIX Swiss Exchange. *(Source: Companies Commission of Malaysia, Techbond Group and Vital Factor analysis)*

Vietnam*

Company	Types of products		
	IA	CA	S
Bostik Vietnam Company Limited	√	√	√
Henkel Adhesives Technologies Vietnam Co., Ltd[(1)]	√	√	√
Konishi Lemido Vietnam Co., Ltd.	√		
Mapei Vietnam Ltd.	√		√
Sika Limited (Vietnam)[(2)]	√		√
Techbond Group	√		√

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IA = Industrial adhesives; CA = Consumer-based adhesives; S = Sealants. * Financial information for companies in Vietnam are not available. (1) Subsidiary company of Henkel AG & Co. KGaA listed on the Frankfurt Stock Exchange. (2) Subsidiary company of Sika AG listed on the SIX Swiss Exchange. *(Source: Vital Factor analysis)*
Note: The methodology used to compile the above list of companies in the industry includes secondary market research namely published documents, websites and industry directories, as well as primary market research (involving direct communications). As there may be companies that do not have websites or do not feature in industry directories and/or published documents, therefore the above list of companies is not exhaustive.

Public Listed Companies

- Of the companies listed above, most of the companies are not publicly listed. The following are the revenue of public listed companies listed in their respective stock exchanges, as well as Techbond Group:

Company	Listing Venue	FYE	Revenue(1) (USD million)	GP (USD million)	GP margin (%)	PAT (USD million)
3M Company	NYSE	31/12/17	31,657	n.a	n.a	4,858
Henkel AG & Co. KGaA	FSE	31/12/17	17,725(2)	8,273(2)	46.7	2,229(2)
Sika AG	SSE	31/12/17	6,345(3)	3,452(3)	54.4	654(3)
H.B. Fuller Company	NYSE	2/12/17	2,306	603	26.1	58
Techbond Group	-	30/6/18	20(4)	6(4)	29.3	3(4)

FYE = Financial year ended; PAT = Profit after tax; GP = Gross profit; NYSE = New York Stock Exchange; FSE = Frankfurt Stock Exchange; SSE = SIX Swiss Exchange; n.a = not available.
Notes:
(1) Revenue figures were sourced from Techbond Group and respective annual/quarterly reports of public listed companies, which may include revenue from other business activities.
(2) Based on annual average exchange rate of USD1 = EUR1.1300 for 2017.
(3) Based on annual average exchange rate of USD1 = CHF0.9847 for 2017.
(4) Based on annual average exchange rate of USD1 = RM4.2989 for 2018.
(Source: Respective annual/quarterly reports of public listed companies, Techbond Group and Vital Factor analysis)

9. MARKET SIZE AND SHARE

- As statistics on local production of industrial adhesives were not available for both Malaysia and Vietnam, information on market size and share are only provided based on external trade.

Malaysia's Export Market for Adhesives

- In 2017, the export market size of industrial adhesives from Malaysia was **45,701 tonnes**^, based on the total export volume of rubber and plastic based adhesives*.
  * Techbond Group's industrial adhesives fall under this category. *(Source: ^ Department of Statistics, Malaysia)*

- In 2017, Techbond Group had an estimated market share of approximately **8%**^ of the exports of adhesives from Malaysia in terms of volume. This was based on the Group's exports from Malaysia which was 3,777 tonnes# in 2017. *(Sources: ^ Vital Factor analysis and # Techbond Group)*

Vietnam's Import Market for Adhesives

- In 2016, the import market size of industrial adhesives by Vietnam was **31,103 tonnes**^, based on the total import volume of rubber and plastic based adhesives*.
  * Techbond Group's industrial adhesives fall under this category. *(Source: ^ General Statistics Office of Vietnam)*

- In 2016, Techbond Group had an estimated market share of approximately **3%**^ of the imports of adhesives into Vietnam in terms of volume. This is based on the Group's imports of industrial adhesives into Vietnam from its Malaysia operations of 958 tonnes# in 2016. *(Source: ^ Vital Factor analysis and # Techbond Group)*

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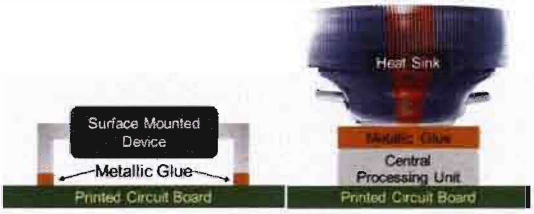
10. DRIVERS OF GROWTH

- The main driver of growth for manufacturers of industrial adhesives is growth of their respective user industries in their local markets, as well as export markets. The performance of user industries depends on the performance of the local and export countries' socio-economic factors including gross domestic products, trade, population, consumer affluence and consumption patterns, which drive the demand for the user industries' products. In addition, performance will also depend on the competitiveness of the user industries' manufactured products locally and their respective export markets.

- Additional drivers of growth also come from the following areas:

  (i) Adhesives are used as a replacement for traditional methods of joining parts such as welding, soldering and other mechanical fastening methods which involve the use of screws, nails, and nuts and bolts. Some of the advantages of using adhesives which will drive growth include the following:
  - Compared to nuts, screws and other mechanical fasteners, adhesive weighs less. Vehicles now are relatively lighter due to the replacement of mechanical fasteners with adhesive.
  - Adhesives can join dissimilar materials such as plastic to metal, which cannot be done through welding.
  - Adhesives are usually spread across the area of the substance which results in a uniform stress distribution while the stress points of mechanical fastening are usually focused on where the rivets or screws are located.
  - Adhesive bonded joints are often almost invisible as it is usually used between two surfaces. On the other hand, the use of screws or rivets destroys the smooth surface of the substance and increases the chance of rust and corrosion.

  (ii) Advancement in adhesive technology includes providing additional functions to bonding. Some of these include the following:
  - Metallic adhesives are developed that can conduct electricity. Metallic adhesives can also conduct heat, thus using them to attach a heat sink to a heat generating device. Such applications are commonly used in the manufacture of electronic products.



  - Biomimetic adhesive is also another new type of adhesive that mimics living organisms in attaching to surfaces. One example of biomimetic adhesive is underwater adhesive modelled after those adhesive proteins of shellfish, for example mussels, barnacles and oysters, which is stronger than existing underwater adhesive using traditional plastic raw materials.

11. BARRIERS TO ENTRY

- The barriers to entry as a manufacturer of industrial adhesives are **moderate** as a new entrant must have the **technical knowledge and expertise** to formulate and manufacture industrial adhesives that meet the needs of each specific industry requirements, as well as individual customer's specifications. There is also the need to have in-house **research and development (R&D)** capabilities to create new, improved or modified products to sustain and grow its business. There is a need to put in place **effective quality control system** to ensure consistency in product performance specification and quality of the manufactured products. The ability to create and implement an effective quality control system requires technical and manufacturing knowledge and expertise. In addition, a new entrant will face challenges in gaining customer acceptance of its relatively new and unknown **brand**, compared to more established brands.

  Without technical and manufacturing knowledge, expertise and R&D capabilities, operators in the industry will only be able to undertake trading or supplying third party products. As a trader or supplier (without in-house manufacturing), the barriers to entry is low.

OUR BUSINESS IS SUBJECT TO A NUMBER OF RISK FACTORS, MANY OF WHICH ARE OUTSIDE OUR CONTROL. THESE RISK FACTORS MAY HAVE A MATERIAL ADVERSE IMPACT ON OUR BUSINESS OPERATIONS, FINANCIAL POSITION AND PERFORMANCE. BEFORE INVESTING IN OUR SHARES, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING KEY RISK FACTORS.

If you are in any doubt as to the information contained in this section, you should consult your stockbrokers, bank managers, solicitors, accountants or other professional advisers.

7.1 Risks in Relation to Our Business and Industry

7.1.1 Dependency on Our Executive Directors and Key Senior Management

The continuing success, future growth and expansion of our Group are, to a significant extent, dependent on the experience, expertise, commitment and continued services of our Managing Director, Executive Director and Key Senior Management.

Our Managing Director, Executive Director and Key Senior Management have been working in our Group for an average of 12 years. The loss of services of any of the above parties without suitable and timely replacement may adversely affect our future business operations, strategic direction and financial performance.

As at the LPD, our Group has not experienced any departure of our Managing Director, Executive Director and Key Senior Management which has an adverse effect on our business operations in the past. However, there can be no assurance that we will be successful in retaining our existing experienced and qualified personnel, in particular our Key Senior Management or there will be a smooth transition should changes occur, which may have an adverse effect on our Group.

The profiles of our Managing Director, Executive Director and Key Senior Management are set out in Section 3 of this Prospectus.

7.1.2 Risks Associated with Our Operations in Vietnam

We intend to utilise 72.54% of the IPO proceeds to finance our business expansion in Vietnam, a socialist country, which may have different government policies and regulations from Malaysia.

7.1.2.1 Continued Usage of the Lands for Our Operations in Vietnam

Our Binh Duong Factory Complex is erected on a piece of land that we leased from the Land and Housing Department of Binh Duong via a land lease agreement dated 20 December 2002, with a remaining lease period of approximately 14 years ("**Binh Duong Land Lease Agreement**"). The lease will be expiring on 22 May 2032.

The Binh Duong Land Lease Agreement may be terminated upon expiration of the lease period or if Techbond Vietnam is dispossessed of assets / bankrupted or if the decision to lease the land to Techbond Vietnam is withdrawn or the operating license is revoked.

Pursuant to Article 126.3 of the Land Law 2013 (Vietnam), upon expiry of the lease period under the Binh Duong Land Lease Agreement, the State of Vietnam may consider extension of the lease period but not exceeding 50 years. However, such renewal would be subject to the extension / renewal of the investment period of Techbond Vietnam's investment project as provided in its Investment Registration Certificate.

As part of our business strategies, we will be expanding our Vietnam operations through a new factory (i.e. the VSIP2 Factory Complex). Our VSIP2 Factory Complex will be constructed on a piece of land that we leased from Vietnam-Singapore Industrial Park J.V., Co., Ltd via a land lease agreement dated 30 December 2016, with a remaining lease period of approximately 40 years ("**VSIP2 Land Lease Agreement**"). The lease will be expiring on 19 March 2058.

Based on the VSIP2 Land Lease Agreement and the amended Investment Registration Certificate, we have to commence construction of the VSIP2 Factory Complex by April 2019, and commence business operation by April 2020, respectively.

The VSIP2 Land Lease Agreement may be terminated if Techbond Mfg Vietnam becomes insolvent or any step or application is taken against Techbond Mfg Vietnam for bankruptcy, winding-up or dissolution or if Techbond Mfg Vietnam breaches any provisions of the VSIP2 Land Lease Agreement and such breach has not been remedied within 30 days after the receipt of written notice from the lessor or within such other period specified (if any).

The extension / renewal of the land use term of Techbond Mfg Vietnam under the VSIP2 Land Lease Agreement would be subjected to the extension / renewal of Techbond Mfg Vietnam's investment period under its Investment Registration Certificate and also the extension / renewal of land lease term between Vietnam-Singapore Industrial Park J.V., Co., Ltd. and the State of Vietnam.

Based on the above, there can be no assurance that we will be able to renew or extend the tenure of the lease for the leased land where both our manufacturing facilities are / will be located. Further, if there is any non-compliance or breaches any provisions of the land lease agreements, the land lease agreements may be terminated. In such event, our operations in Vietnam may be adversely affected and consequently our financial performance may suffer a material adverse impact.

As at the LPD, we have not experienced any non-compliance issues or breaches of provisions of the land lease agreements that may materially affect our operations in Vietnam.

7.1.2.2 Significant Portion of Our IPO Proceeds is to be used for Our Vietnam Operation

For the past four FYEs, our customers from Vietnam represent the largest contributor to our total revenue. Therefore, we have in place a business expansion plan that would provide us with the platform to further grow our Vietnam operations:

(i) setting up the VSIP2 Factory Complex to expand our existing Vietnam manufacturing capabilities; and

(ii) setting up a new polymerisation plant, as well as two new water-based adhesives manufacturing lines.

As such, we intend to utilise 72.54% of the IPO proceeds to finance our business expansion in Vietnam. Nonetheless, the abovementioned expansion would also result in additional depreciation / amortisation expenses moving forward.

However, our ability to successfully implement the abovementioned business strategies is also dependent on other factors, such as, our ability to secure new customers in view of the expanded production capacity, and the completion of the VSIP2 Factory Complex. As such, there is no assurance that we will be able to successfully implement all of our business strategies and failure to do so may adversely affect our business and financial performance.

7.1.3 Disruption in Our Operations, Facilities and Inadequate Insurance Coverage

Our revenue stream is dependent on our manufacturing processes running smoothly and efficiently. Our daily operations are subject to risks outside our control such as outbreak of fire, flood, power failure, water supply disruption, burglary, shipment disruption, and other calamity which may cause significant downtime, losses and / or damage to our products, manufacturing facilities, warehouse and office, hence disrupting and affecting our business operations.

In view of the above, we have purchased insurance policies to insure against amongst others, fire damage on our stocks and our moveable and immovable properties, burglary on our properties and for accidents covering bodily injury or property damage incurred on the premises as well as freight insurance for our products.

We ensure the continuity of our insurance by renewing all the insurance policies annually and reviewing the adequacy of our existing insurance coverage for all our assets on yearly basis. We believe that our current insurance coverage undertaken is adequate for our business and level of operations.

For the past four FYEs, we have experienced power failure in our Binh Duong Factory Complex of average five times per year. Nonetheless, our operations were not significantly affected as prior notification on the occurrence date will be given, which enable us to plan our production and delivery activities on the affected date. During downtime, our workers continued with tasks that require manual operation such as repacking our hot melt adhesives from jumbo bags of 500 kilogram to the required packaging bags of 25 kilogram. Notwithstanding the above, we have not encountered any major operational disruptions for the past four FYEs and up to the LPD that may materially affect our business or financial performance.

However, if any such risks are uninsured, not covered under our insurance policy, or where the insurance protection is not sufficient to cover such risks, we may have to bear such losses, damages or liabilities and consequently our business and financial condition may suffer a material adverse impact.

7.1.4 Fluctuations in Foreign Exchange Rate and Changes in Foreign Exchange Administrative Rules

Our Group's reporting currency is in RM whilst the functional and reporting currency of our Vietnam subsidiary companies is in USD. With respect to products and services provided by our Malaysia subsidiary companies to customers in foreign countries, revenue is mainly denominated in USD. For products and services provided by our Vietnam subsidiary companies to its customers are priced mainly in VND, and revenue is mainly received in VND. However, the daily transactions that are recognised in our Vietnam subsidiary companies' accounting system and financial statements are in USD.

Further, our revenue derived from the foreign market accounted for 78.50%, 81.64%, 81.50% and 79.63% of our total revenue for the FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively. Similarly, our purchases of raw materials from outside Malaysia accounted for 73.21%, 76.48%, 74.44% and 77.77% of our total purchases for the same four financial years, respectively.

Based on the above, we are exposed to foreign currency exchange gains or losses arising from timing differences between our billings, actual receipt of payments and conversion / translation into RM as well as when our assets, liabilities, revenue and earnings recorded by our Vietnam subsidiary companies are translated from USD into RM for financial reporting and repatriation purposes.

As we are unable to estimate the movement of the foreign exchange rates and its impact on the revenue and earnings of our Group, any significant fluctuations in the foreign exchange rates, particularly the USD, may have a significant impact, whether positively or negatively, on our financial condition and results of operations.

We have observed and complied with Bank Negara Malaysia's Supplementary Notice on Foreign Exchange Administration Rules "Measures to Promote Development of Malaysia's Financial Market" whereby 75% of foreign currency proceeds from export of goods are converted to RM. However, there can be no assurance that any other foreign exchange administrative rule imposed or varied by any relevant authority from time to time will not materially affect the business and / or financial performance of our Group.

Please refer to Section 11.3 (i) of this Prospectus for the breakdown of foreign-denominated sales and purchases by currency and our foreign exchange gain / loss.

7.1.5 Availability and Price of Raw Materials

Our main raw materials used to manufacture our industrial adhesives and sealants consist of base adhesive materials and additives. These are mainly plastics and polymer based materials, including PVA, PVAc, vinyl acetate ethylene, styrene butadiene (emulsion and solution form), acrylic, styrene acrylic and isocyanate.

For the FYE 2018, our purchases of base materials and additives represented 88.38% and 6.36% of our total purchases, respectively. As these plastics and polymer based materials are globally traded, they are subject to price fluctuations or volatility. In this respect, we are subjected to the risk of any unfavourable fluctuations in the prices of the raw materials that we use. Prices of plastics and polymer based materials are influenced by global macroeconomic factors including supply, demand and currency exchange rates.

For the FYE 2018, 76.65% of our purchases of base materials and additives are sourced from third party suppliers outside Malaysia. As such, any increase in the prices or unavailability of these raw materials may result in an increase in our operational costs or interruption to our operations, which may adversely affect our financial performance.

7.1.6 Impact from the Performance of the User-Industries

Industrial adhesives are used in many industries. Some of the main user-industries include, amongst others, woodworking, paper and packaging, building and construction, and automotive industries. Any downturn in the performance of user industries will have a negative impact on the demand for industrial adhesives.

We face the risk of dependency on the woodworking as well as paper and packaging industries as 65.46% and 23.99% of our total revenue for FYE 2018 were derived from these two industries respectively. Hence, there can be no assurance if any downturn in the performance of the woodworking as well as paper and packaging industries, it would not have an adverse impact on our financial performance.

7.1.7 Absence of Long-term Contracts with Our Customers

We have not entered into any long-term contracts with our customers as we manufacture based on confirmed orders. We place great emphasis in developing long-term business relationships with our customers as we believe this will ensure our business continuity and growth.

We are not overly dependent on any single customer, save for our top major customer, who is also our distributor for the Indonesia market, which contributed 10.35%, 13.10%, 11.53% and 11.67% of our total revenue for the FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively. Nevertheless, we have established a long-term business relationship with this customer for ten years.

Over the years, despite the absence of long-term contracts with our customers, we have managed to establish a loyal customer base, whereby 13 of our top 20 customers for the FYE 2018 have been in a business relationship with us for seven or more years. Nonetheless, there can be no assurance that the absence of long-term contracts will not materially affect our operations, financial performance and future prospects should there be any prolonged disruptions in customer orders.

7.1.8 Changes in Economic, Political, Legal, Regulatory and Social Environment

Our business is subject to prevailing economic, social, political and regulatory conditions as we derive a significant portion of our revenue from foreign markets, which accounted for 78.50%, 81.64%, 81.50% and 79.63% of our total revenue for the FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively. Further, we have manufacturing operations in Vietnam and purchase our raw materials from outside Malaysia.

Any adverse developments or uncertainties including, amongst others, changes in political conditions, Government policies and regulations, fiscal and monetary policies, import and export restrictions, duties and tariffs, foreign exchange, civil unrest, unemployment and inflation, could adversely impact our financial performance.

For instance, in accordance with Article 14.2 of the Law on Corporate Income Tax (Vietnam), our expansion via the VSIP2 Factory Complex would entitle us to a full tax exemption for the first two years upon having taxable income, and a 50% reduction of payable tax amounts in the subsequent four years. There can be no assurance that such tax exemptions will not be prematurely terminated by the Government of Vietnam. If the tax exemption is prematurely terminated, this may have a material adverse impact on our cash flows and our after tax profitability.

As such, there can be no assurance that adverse political, economic and regulatory factors will not materially affect our operations, financial performance and future prospects.

7.2 Risks in Relation to Our Shares and Our IPO

7.2.1 Delay or Abortion of Our Listing

The occurrence of any one or more of the following events may result in a delay or abortion of our Listing:

(a) any or all of the identified investors fail for whatever reason to subscribe for our IPO Shares allocated to them; or

(b) the Sole Underwriter exercising their rights pursuant to the Underwriting Agreement to discharge from their obligations under the Underwriting Agreement; or

(c) we are unable to meet the public shareholding spread requirement of at least 25% of our enlarged issued share capital to be held by a minimum of 1,000 public shareholders holding not less than 100 Shares each at the time of Listing.

If we are unable to meet the above requirement, you will not receive any Shares and monies paid in respect of any application accepted will be returned to you without interest within 14 days after we become liable to repay it. If any such monies are not repaid within 14 days after we become liable to repay it, then the provisions under sub-section 243(2) of the CMSA shall apply.

If our Listing is aborted and our Shares have been allotted to you, a return of monies to you can only be achieved by way of cancellation of our share capital as provided under the Act. Such cancellation can be implemented by either (i) the approval of our shareholders by way of a special resolution in a general meeting, consent of our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of High Court of Malaya; or (ii) the approval of our shareholders by way of a special resolution in a general meeting supported by a solvency statement from our Directors. There can be no assurance that such monies can be recovered within a short period of time or at all under such circumstances.

7.2.2 No Prior Market for Our Shares and Possible Volatility of Our Share Price

There has been no public market for our Shares prior to the Listing and 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 Group's financial and operating history, our growth prospects and future plans as well as the prospects for the industry in which our Group operates. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the Main Market upon or subsequent to our Listing.

Further, the market price of our Shares may be volatile and could trade at prices that may be lower than our IPO Price depending on various factors, including prevailing economic and financial conditions in Malaysia, our operating results, securities market sentiments, investors' perceptions and trading liquidity of our Shares.

7.2.3 Control by Promoters

Our Promoter, namely Lee Seng Thye, via Sonicbond will hold 73.65% of our enlarged issued share capital upon Listing. As a result, he will be able to exercise significant influence over the business direction and management of our Group, including election of Directors, timing and payment of dividends as well as outcome of certain matters requiring the approval of our shareholders, unless he is required to abstain from voting by law and / or by relevant guidelines or regulations. His interests may not be aligned with those of our other shareholders.

7.2.4 Future Fund Raising Exercises May Dilute Shareholders' Equity and / or Restrict Our Operations

We may require additional funding for our future growth. This may result in dilution of our shareholders' equity or restrictions imposed by additional debt funding.

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 operations. Thus, we may need additional capital expenditure for mergers and acquisitions or investments. Any issue of our Shares or other securities to raise funds may dilute shareholders' equity interests and may, in the case of a rights issue, require additional investments by shareholders.

Further, an issue of our Shares, whether below or above the then prevailing market price, may also affect the value of our Shares then held by you. In addition, any additional debt funding would increase our gearing ratio and may restrict our freedom to operate our business as it may have conditions that:

(i) limit our ability to pay dividends or require us to seek consents for the payment of dividends;

(ii) increase our vulnerability to general adverse economic and industry conditions;

(iii) require us to dedicate a portion of our cash flow from operations to repay our debts, thereby reducing the availability of our cash flow for capital expenditures, working capital and other general corporate purposes; and

(iv) limit our feasibility in planning for, or reacting to, changes in our businesses and our industry.

If we fail to obtain additional funds to meet the requirements for our business or investments, we may not be able to implement future plans that are essential to our continuing growth.

7.2.5 Dividend Payment is Not Guaranteed

Our ability to pay dividends or make other distributions to our shareholders is not guaranteed. Our Board may decide, at its absolute discretion, at any time and for any reason whatsoever, not to pay dividends. We are an investment holding company and our income mainly derives from dividends received from our Subsidiaries. Therefore, our ability to pay future dividends and sustain our dividend policy in the future is largely dependent on the financial performance of our Subsidiaries.

In considering the level of dividend, if any, upon recommendation by our Directors, we will consider various factors, including but not limited to our financial performance, cash flow requirements, level of indebtedness, loan covenants and future expansion plans. The market price of our Share may be adversely affected and resulting in a reduction in the value of any investment in our Shares if we are unable to pay dividends at level anticipated by our shareholders.

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8. RELATED PARTY TRANSACTIONS

8.1 Existing and Proposed Related Party Transactions

8.1.1 Non-Recurrent Related Party Transactions

Save for the Acquisitions, there are no material related party transactions which are non-recurrent in nature and that have been entered into or proposed to be entered into by our Group with related parties for the past four financial years up to the FYE 2018 and for the subsequent period up to the LPD.

8.1.2 Recurrent Related Party Transactions

There are no material existing and / or proposed recurrent related party transactions that our Group has entered into or are to be entered into by our Group with our related parties for the past four financial years up to the FYE 2018 and for the subsequent period up to the LPD.

Upon Listing, our Directors through the Audit and Risk Management Committee will ensure that any non-recurrent related party transactions and recurrent related party transactions are carried out on an arm's length basis and are not on terms more favourable to the related parties than those generally available to the public and are not to the detriment of our Group.

8.2 Transactions that are Unusual in Their Nature or Condition

There were no transactions that are unusual in nature or conditions, involving goods, services, tangible or intangible assets, to which we or our Subsidiaries was a party in respect of the past four financial years up to the FYE 2018 and for the subsequent period up to the LPD.

8.3 Loans Made to Related Parties

There were no outstanding loans (including guarantees of any kind) made by our Group to or for the benefit of the related parties in respect of the past four financial years up to the FYE 2018 and for the subsequent period up to the LPD.

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9. CONFLICT OF INTEREST

9.1 Interest in Similar Businesses or in Customers or Suppliers of Our Group

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

Details of the interests, shareholdings and directorships in other businesses of our Directors and substantial shareholders are disclosed in Section 3.2.3 of this Prospectus.

9.2 Declaration by Advisers on Conflicts of Interest

9.2.1 PIVB

PIVB has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Principal Adviser, Sole Underwriter and Sole Placement Agent in respect of our IPO.

9.2.2 Grant Thornton Malaysia

Grant Thornton Malaysia has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants in respect of our IPO.

9.2.3 Vital Factor Consulting Sdn Bhd

Vital Factor Consulting Sdn Bhd has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Independent Business and Market Research Consultants in respect of our IPO.

9.2.4 Axcelasia Columbus Sdn Bhd

Axcelasia Columbus Sdn Bhd has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Independent Internal Control Consultant in respect of our IPO.

9.2.5 Henry Butcher Malaysia (SEL) Sdn Bhd

Henry Butcher Malaysia (SEL) Sdn Bhd has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Independent Valuer in respect of our IPO.

9.2.6 Chooi & Company + Cheang & Ariff

Chooi & Company + Cheang & Ariff has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Solicitors as to Malaysian law in respect of our IPO.

9.2.7 LuatViet Advocates & Solicitors

LuatViet Advocates & Solicitors has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Solicitors as to Vietnamese law in respect of our IPO.

9.2.8 Tricor Investor & Issuing House Services Sdn Bhd

Tricor Investor & Issuing House Services Sdn Bhd has given its confirmation that there is no existing or potential conflict of interest in its capacity as the Issuing House and Share Registrar in respect of our IPO.

10. HISTORICAL FINANCIAL INFORMATION

Our combined financial information have been compiled based on the basis and accounting policies consistent with those currently adopted by our Group which are set out in the notes and assumptions included in the Accountants' Report as set out in Section 12 of this Prospectus. The financial statements used in the preparation of our combined financial information were prepared in accordance with the Malaysian Financial Reporting Standards. Any adjustments which were dealt with when preparing our combined financial information have been highlighted and disclosed in Section 12 of this Prospectus. There has been no audit qualification on our audited financial statements for the past four financial years up to the FYE 2018.

10.1 Combined Statements of Profit or Loss and Other Comprehensive Income

The table below sets out a summary of the audited combined financial information for the past four financial years up to the FYE 2018. The following historical audited combined financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition, Results of Operations and Prospects as set out in Section 11 of this Prospectus and the Accountants' Report as set out in Section 12 of this Prospectus.

	Audited			
	FYE 30 June			
	2015 RM	**2016 RM**	**2017 RM**	**2018 RM**
Revenue	63,626,796	75,861,844	82,363,850	86,811,281
Cost of sales	(44,872,204)	(51,698,012)	(56,034,101)	(61,401,951)
GP	18,754,592	24,163,832	26,329,749	25,409,330
Other income	1,882,962	1,021,674	1,181,231	715,227
Administration expenses	(4,999,271)	(6,266,585)	(5,800,180)	(6,399,413)
Distribution expenses	(1,839,499)	(2,007,651)	(2,209,089)	(1,859,182)
Other expenses	(1,086,511)	(1,335,890)	(467,763)	(758,512)
Finance costs	(71,767)	(58,018)	(37,373)	(8,787)
PBT	12,640,506	15,517,362	18,996,575	17,098,663
Taxation	(3,161,547)	(3,828,917)	(4,443,948)	(3,678,823)
PAT	9,478,959	11,688,445	14,552,627	13,419,840
Other comprehensive income, net of tax:				
Item that may be reclassified subsequently to profit or loss				
Foreign currency translation differences	3,220,667	1,617,228	1,737,893	(2,252,448)
Total comprehensive income	12,699,626	13,305,673	16,290,520	11,167,392
PAT attributable to:				
Equity holders of the parent company	9,478,959	11,688,445	14,552,627	13,419,840
Minority interest	-	-	-	-
	9,478,959	11,688,445	14,552,627	13,419,840
Total comprehensive income attributable to:				
Equity holders of the parent company	12,699,626	13,305,673	16,290,520	11,167,392
Minority interest	-	-	-	-
	12,699,626	13,305,673	16,290,520	11,167,392
PAT	9,478,959	11,688,445	14,552,627	13,419,840
Tax expense	3,161,547	3,828,917	4,443,948	3,678,823
PBT	12,640,506	15,517,362	18,996,575	17,098,663

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

	Audited			
	FYE 30 June			
	2015 RM	2016 RM	2017 RM	2018 RM
Finance costs	71,767	58,018	37,373	8,787
Interest income	(45,855)	(72,012)	(113,219)	(418,280)
Depreciation	1,576,718	1,293,553	1,296,958	1,209,663
Amortisation	12,625	122,049	15,643	94,849
EBITDA	14,255,761	16,918,970	20,233,330	17,993,682
Weighted average number of ordinary shares in issue	1,548,900	1,548,900	12,832,189	22,998,902
Basic / Diluted EPS (sen)[(a)]	611.98	754.63	113.41	58.35
GP margin (%)	29.48	31.85	31.97	29.27
PBT margin (%)	19.87	20.45	23.06	19.70
PAT margin (%)	14.90	15.41	17.67	15.46
EBITDA margin (%)	22.41	22.30	24.57	20.73
Effective tax rate (%)	25.01	24.68	23.39	21.52

Note:

(a) Computed based on the PAT attributable to the equity holders of the parent company divided by the weighted average number of ordinary shares in issue.

10.2 Pro Forma Consolidated Statements of Financial Position

Our pro forma consolidated statements of financial position as set out below have been prepared for illustrative purposes only to show the effects on the pro forma consolidated statements of financial position of our Group as at 30 June 2018 had the Listing Exercise been completed on that date and that the current structure of our Group has been in existence throughout the financial years / periods under review.

Our pro forma consolidated statements of financial position should be read in conjunction with the Reporting Accountants' Letter on the Compilation of Pro Forma Consolidated Financial Information as set out in Section 10.4 of this Prospectus.

	Audited as at 30 June 2018 RM	Pro forma I After the Acquisitions RM	Pro forma II After Pro forma I, Public Issue and utilisation of proceeds RM
ASSETS			
Non-Current Assets			
Property, plant and equipment	-	16,865,307	44,105,307
Land use rights	-	6,606,427	6,606,427
Other receivables	-	230,820	230,820
Total non-current assets	-	23,702,554	50,942,554
Current Assets			
Inventories	-	24,817,221	24,817,221
Trade receivables	-	16,214,925	16,214,925
Other receivables	203,321	3,584,092	1,982,071
Fixed deposit with licensed banks	-	10,835,245	10,835,245
Cash and bank balances	2	16,840,929	25,872,250
Total current assets	203,323	72,292,412	79,721,712
TOTAL ASSETS	203,323	95,994,966	130,664,266

	Audited as at 30 June 2018 RM	Pro forma I After the Acquisitions RM	Pro forma II After Pro forma I, Public Issue and utilisation of proceeds RM
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	2	101,937,001	139,558,493
Merger deficit	-	(78,938,099)	(78,938,099)
Exchange translation reserve	-	4,798,618	4,798,618
(Accumulated losses) / Retained earnings	(230,786)	56,980,432	54,028,240
TOTAL EQUITY	(230,784)	84,777,952	119,447,252
LIABILITIES			
Non-Current Liabilities			
Deferred income	-	75,000	75,000
Deferred tax liabilities	-	689,935	689,935
Total non-current liabilities	-	764,935	764,935
Current Liabilities			
Trade payables	-	8,421,376	8,421,376
Other payables	434,107	1,329,148	1,329,148
Tax payables	-	656,555	656,555
Deferred income	-	45,000	45,000
Total current liabilities	434,107	10,452,079	10,452,079
TOTAL LIABILITIES	434,107	11,217,014	11,217,014
TOTAL EQUITY AND LIABILITIES	203,323	95,994,966	130,664,266
(Net liabilities) / NA	(230,784)	84,777,952	119,447,252
Number of ordinary shares in issue	2	169,895,000	230,000,000
(Net liabilities) / NA per Share (RM)	(115,392)	0.50	0.52

10.3 Pro Forma Consolidated Statement of Cash Flows

The following is our pro forma consolidated statement of cash flows for the FYE 2018 which has been prepared for illustrative purposes only on the assumption that the current structure of our Group has been in existence throughout the financial years / periods under review.

Our pro forma consolidated statement of cash flows should be read in conjunction with the Reporting Accountants' Letter on the Compilation of Pro Forma Consolidated Financial Information as set out in Section 10.4 of this Prospectus.

	FYE 2018 **RM**
CASH FLOWS FROM OPERATING ACTIVITIES	
PBT	14,146,471
Adjustments for:	
Depreciation of property, plant and equipment	1,209,663
Amortisation of land use rights	94,849
Amortisation of deferred income	(45,000)
Inventories written off	53,926
Term loan interest	8,787
Unrealised loss on foreign exchange	464,381
Interest income	(418,280)
Property plant and equipment written off	27,160
Operating profit before working capital changes	15,541,957
Changes in working capital:	
Inventories	(154,850)
Receivables	(2,170,492)
Payables	5,564,556
Cash generated from operations	18,781,171
Tax paid	(4,791,927)
Tax refunded	374,113
Interest paid	(8,787)
Interest received	418,280
Net cash from operating activities	14,772,850
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(29,366,485)
Net cash used in investing activities	(29,366,485)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of shares	37,621,492
Repayment of term loans	(681,631)
Dividend paid	(3,100,908)
Net cash from financing activities	33,838,953
Net increase in cash and cash equivalents	19,245,318
Effect of foreign currency translation differences	(1,162,305)
Cash and cash equivalents at beginning of financial year	18,624,482
Cash and cash equivalents at end of financial year	[(a)]36,707,495

Note:

(a) Cash and cash equivalents at end of financial year comprised of fixed deposit with licensed banks (RM10,835,245) and cash and bank balances (RM25,872,250).

10.4 Reporting Accountants' Letter on the Compilation of Pro Forma Consolidated Financial Information

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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Grant Thornton Malaysia
(AF:0737)
Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

T +603 2692 4022
F +603 2691 5229

Date: 16 October 2018

The Board of Directors
Techbond Group Berhad
No. 36, Jalan Anggerik Mokara 31/59
Seksyen 31, Kota Kemuning
40460 Shah Alam
Selangor Darul Ehsan

Dear Sirs,

TECHBOND GROUP BERHAD ("TECHBOND" OR "THE COMPANY") AND ITS SUBSIDIARIES ("TECHBOND GROUP", "PRO FORMA GROUP" OR "THE GROUP")

REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS ("REPORT")

We have completed our assurance engagement to report on the compilation of the pro forma consolidated financial information of the Group prepared by the Board of Directors of the Company. The pro forma consolidated financial information consists of the pro forma consolidated statements of financial position as at 30 June 2018 together with the accompanying notes thereon, for which we have stamped for the purpose of identification. The pro forma consolidated financial information has been prepared for inclusion in the prospectus of the Company in connection with the initial public offering ("IPO") and the listing and quotation of the entire issued share capital of the Company on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the pro forma consolidated financial information are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in Note 1 of the pro forma consolidated financial information ("Applicable Criteria").

The pro forma consolidated financial information has been compiled by the Board of Directors for illustrative purposes only, to illustrate the impact of the IPO on the financial position of the Group as at 30 June 2018 had the IPO been effected on 30 June 2018. As part of this process, information about the financial position of the Group has been extracted by the Board of Directors from the Group's audited financial information as at 30 June 2018 which have been audited.

The Directors' Responsibility for the Pro Forma Consolidated Financial Information

The Board of Directors is responsible for compiling the pro forma consolidated financial information on the basis described in Note 1 of the pro forma consolidated financial information.

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Our Independence and Quality Control

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

Our firm applies *International Standard on Quality Control ("ISQC") 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the pro forma consolidated financial information has been compiled, in all material respects, by the Board of Directors of the Company on the basis as described in Note 1 of the pro forma consolidated financial information.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE 3420), Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus,* issued by the International Auditing and Assurance Standard Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors of the Company have compiled, in all material respects, the pro forma consolidated financial information on the basis as set out in Note 1 of the pro forma consolidated financial information.

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

The purpose of pro forma consolidated financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 30 June 2018 would have been as presented.

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

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

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Reporting Accountants' Responsibilities (cont'd)

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

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

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

Opinion

In our opinion:-

(i) The pro forma consolidated statements of financial position of the Group have been properly compiled on the basis as set out in the accompanying notes based on the audited financial statements of the Group for the financial year ended 30 June 2018 (which have been prepared by the Directors of Techbond), and in a manner consistent with both the format and the accounting policies adopted by the Group for the financial year ended 30 June 2018 and the adoption of new accounting policy as described in Note 1; and

(ii) Each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position is appropriate for the purposes of preparing the pro forma consolidated statements of financial position.

Other Matter

This report has been prepared solely for the purpose stated above, in connection with the IPO and Listing. As such, this letter should not be used or relied upon for any other purpose without the prior written consent from us. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this letter contrary to the aforesaid purpose.

Yours faithfully,

GRANT THORNTON MALAYSIA
NO. AF: 0737
CHARTERED ACCOUNTANTS

KHO KIM ENG
(NO: 03137/10/2020 J)
CHARTERED ACCOUNTANT

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME

1.1 Pro Forma Group

The pro forma consolidated financial information of Techbond Group Berhad ("Techbond" or "the Company") and its subsidiaries (collectively referred to as "Techbond Group", "Pro Forma Group" or "the Group") has been prepared for illustrative purposes only.

1.2 Basis of Preparation

The pro forma consolidated financial information of the Group has been prepared on the basis consistent with the accounting policies adopted by the Group for the financial year ended 30 June 2018, in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Prospectus Guidelines, except for the adoption of the following new accounting policy:-

Merger method of accounting

The pro forma consolidated statements of financial position are consolidated using the merger method as these companies are under the common control by the same party both before and after the acquisition of the Group. When the merger method is used, the difference between the cost of investment recorded by Techbond and the share capital of the subsidiaries are accounted for as merger deficit in the pro forma consolidated statements of financial position.

The Group is regarded as a continuing entity resulting from the reorganisation exercise because the management of all the entities within the Group, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

The audited financial statements of the Group as at 30 June 2018 were not subject to any audit qualification.

The pro forma consolidated financial information, because of its nature, may not reflect the actual financial position of the Group. Further, such information does not predict the future financial position of the Group.

The pro forma consolidated financial information of the Group comprises pro forma consolidated statements of financial position as at 30 June 2018, adjusted for the impact of the Listing Scheme as set out in Note 1.3 of this pro forma consolidated financial information.

1.3 Listing Scheme

(i) **Acquisitions**

Acquisitions entails acquiring the entire equity interest of the subsidiaries, for a total purchase consideration of RM101,936,999, to be satisfied via the issuance of 169,894,998 new Shares at RM0.60 per share.

(ii) **IPO**

The IPO involves a public issue of 60,105,000 new ordinary shares in Techbond at an indicative issue/offer price of RM0.66 per share.

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONT'D)

1.3 Listing Scheme (cont'd)

(iii) Share Transfer

The Promoters will transfer 169,398,420 shares to a private holding company, namely Sonicbond Sdn Bhd ("Sonicbond") at a consideration of RM101,639,052, to be satisfied partly by the issuance of 99,998 new Sonicbond's shares to be issued at RM1.00 and the remaining balance consideration of RM101,539,054 will remain as an amount owing from Sonicbond to the Promoters.

(iv) Listing and Quotation on the Main Market of Bursa Securities

In conjunction with the IPO, the Company would seek the listing and quotation of its entire enlarged issued share capital comprising 230,000,000 ordinary shares in Techbond on the Main Market of Bursa Securities.

1.4 Utilisation of Proceeds from IPO

Gross proceeds from the IPO of RM39,669,300 are expected to be utilised as follows:

Details of utilisation	Estimated timeframe for utilisation upon listing	RM
Capital expenditure		
- Factory complex construction	Within 24 months	10,000,000
- Purchase and installation of machinery and equipment	Within 24 months	17,240,000
Working capital	Within 24 months	7,429,300
Estimated listing expenses*	Within 3 months	5,000,000
Total estimated proceeds		**39,669,300**

* *The estimated listing expenses arising from the issuance of new Techbond Shares pursuant to the IPO amounting to RM2,047,808 are to be offset against the share capital and the remaining estimated listing expenses of RM2,952,192 will be expensed off to profit or loss and this represents a one-off expenditure in conjunction with the IPO.*

1.5 Auditors of Techbond Group

The auditors of the audited financial statements of Techbond Group for the financial year ended 30 June 2018 are as follows:

Company	Auditor
Techbond Group Berhad	Grant Thornton Malaysia
Techbond Manufacturing Sdn. Bhd.	Grant Thornton Malaysia
Techbond (Sabah) Sdn. Bhd.	Grant Thornton Malaysia
Techbond International Sdn. Bhd.	Grant Thornton Malaysia
Techbond (Vietnam) Co., Ltd.	Grant Thornton (Vietnam) Limited
Techbond MFG (Vietnam) Co., Ltd.	Grant Thornton (Vietnam) Limited

The audited financial statements of Techbond Group for the financial year ended 30 June 2018 were not subject to any qualification or modification.

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018

The pro forma consolidated statements of financial position ("SOFP") as at 30 June 2018 has been prepared for illustrative purposes only to show the effects on Techbond Group as at 30 June 2018 based on the assumption that the Listing Scheme as set out in Note 1.3 of the pro forma consolidated financial information had been effected on 30 June 2018.

		Statement of Financial Position as at 30 June 2018	Adjustments for Acquisitions	Pro forma I After Acquisitions	Adjustments for Public Issue and Utilisation of Proceeds	Pro forma II After Public Issue and Utilisation of Proceeds
		RM	RM	RM	RM	RM
ASSETS						
Non-current assets						
Property, plant and equipment	3.1	-	16,865,307	16,865,307	27,240,000	44,105,307
Land use rights	3.2	-	6,606,427	6,606,427	-	6,606,427
Other receivables	3.3	-	230,820	230,820	-	230,820
Total non-current assets		-	23,702,554	23,702,554	27,240,000	50,942,554
Current assets						
Inventories		-	24,817,221	24,817,221	-	24,817,221
Trade receivables		-	16,214,925	16,214,925	-	16,214,925
Other receivables	3.3	203,321	3,380,771	3,584,092	(1,602,021)	1,982,071
Fixed deposits with licensed banks		-	10,835,245	10,835,245	-	10,835,245
Cash and bank balances	3.4	2	16,840,927	16,840,929	9,031,321	25,872,250
Total current assets		203,323	72,089,089	72,292,412	7,429,300	79,721,712
Total assets		203,323	95,791,643	95,994,966	34,669,300	130,664,266
EQUITY AND LIABILITIES						
Share capital	3.5	2	101,936,999	101,937,001	37,621,492	139,558,493
Merger deficit	3.6	-	(78,938,099)	(78,938,099)	-	(78,938,099)
Exchange translation reserve		-	4,798,618	4,798,618	-	4,798,618
(Accumulated losses)/retained earnings	3.7	(230,786)	57,211,218	56,980,432	(2,952,192)	54,028,240
Total equity		(230,784)	85,008,736	84,777,952	34,669,300	119,447,252

Stamped for the purpose of identification on:
16 OCT 2018
Grant Thornton Malaysia

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018 (CONT'D)

	Note	Statement of Financial Position as at 30 June 2018	Adjustments for Acquisitions	Pro forma I After Acquisitions	Adjustments for Public Issue and Utilisation of Proceeds	Pro forma II After Public Issue and Utilisation of Proceeds
		RM	RM	RM	RM	RM
LIABILITIES						
Non-current liabilities						
Deferred income		-	75,000	75,000	-	75,000
Deferred tax liabilities		-	689,935	689,935	-	689,935
Total non-current liabilities		-	764,935	764,935	-	764,935
Current liabilities						
Trade payables		-	8,421,376	8,421,376	-	8,421,376
Other payables		434,107	895,041	1,329,148	-	1,329,148
Tax payable		-	656,555	656,555	-	656,555
Deferred income		-	45,000	45,000	-	45,000
Total current liabilities		434,107	10,017,972	10,452,079	-	10,452,079
Total liabilities		434,107	10,782,907	11,217,014	-	11,217,014
Total equity and liabilities		203,323	95,791,643	95,994,966	34,669,300	130,664,266
Issued ordinary share capital (Unit)	3.5	2	169,894,998	169,895,000	60,105,000	230,000,000
Net assets per share (RM)		(115,392)		0.50		0.52

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2018 (CONT'D)

(i) Pro Forma I: Acquisition

The Acquisition entails the issuance of 169,894,998 new Techbond Shares at an issue price of RM0.60 per Techbond Share for the acquisition of subsidiaries with total purchase consideration of RM101,936,999.

(ii) Pro Forma II: Public Issue and Utilisation of Proceeds from Public Issue

Pro Forma II is stated after Pro Forma I and entails the issuance of 60,105,000 new Techbond Shares at an issue price of RM0.66 per Techbond Share and the utilisation of proceeds from public issue.

3. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

3.1 PROPERTY, PLANT AND EQUIPMENT

The movements of the property, plant and equipment are as follows:

	Amount RM
As at 30 June 2018	-
Pursuant to acquisition of subsidiaries	16,865,307
As per Pro Forma I	16,865,307
Pursuant to public issue	27,240,000
As per Pro Forma II	44,105,307

3.2 LAND USE RIGHTS

The movements of the land use rights are as follows:

	Amount RM
As at 30 June 2018	-
Pursuant to acquisition of subsidiaries	6,606,427
As per Pro Forma I/II	6,606,427

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

3. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.3 OTHER RECEIVABLES

The movements of the other receivables are as follows:

	Amount RM
Non-current	
As at 30 June 2018	-
Pursuant to acquisition of subsidiaries	230,820
As per Pro Forma I/II	230,820
Current	
As at 30 June 2018	203,321
Pursuant to acquisition of subsidiaries	3,380,771
As per Pro Forma I	3,584,092
Arising from reversal of prepaid listing expenses	(1,602,021)
As per Pro Forma II	1,982,071

3.4 CASH AND BANK BALANCES

The movements of the cash and bank balances are as follows:

	Amount RM
As at 30 June 2018	2
Pursuant to acquisition of subsidiaries	16,840,927
As per Pro Forma I	16,840,929
Pursuant to public issue	39,669,300
Estimated capital expenditure	(27,240,000)
Estimated listing expenses	(3,397,979)
As per Pro Forma II	25,872,250

TECHBOND GROUP BERHAD AND ITS SUBSIDIARIES

3. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

3.5 SHARE CAPITAL

The movements of the issued share capital are as follows:

	No. of shares	Amount RM
As at 30 June 2018	2	2
Pursuant to issuance of share for the acquisition of subsidiaries	169,894,998	101,936,999
As per Pro Forma I	169,895,000	101,937,001
Pursuant to public issue	60,105,000	39,669,300
Arising from offsetting of listing expenses	-	(2,047,808)
As per Pro Forma II	230,000,000	139,558,493

3.6 MERGER DEFICIT

The movements of the merger deficit are as follows:

	Amount RM
As at 30 June 2018	-
Pursuant to acquisition of subsidiaries	
- Issuance of shares of Techbond	101,936,999
- Share capital of its subsidiaries	(22,998,900)
As per Pro Forma I/II	78,938,099

3.7 (ACCUMULATED LOSSES)/RETAINED EARNINGS

The movements of the (accumulated losses)/retained earnings are as follows:

	Amount RM
As at 30 June 2018	(230,786)
Pursuant to acquisition of subsidiaries	57,211,218
As per Pro Forma I	56,980,432
Arising from listing expenses charge	(2,952,192)
As per Pro Forma II	54,028,240

11. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS

The following management's discussion and analysis of our Group's financial condition and results of operations should be read in conjunction with our Group's combined financial information and its accompanying notes presented in Section 12 of this Prospectus, and the Pro Forma Consolidated Financial Information presented in Section 10 of this Prospectus.

This management's discussion and analysis contains forward-looking statements that reflect our views with respect to future events and our future financial performance. However, actual events and results may differ materially from those described in these forward-looking statements. Factors that may cause actual events and results to differ significantly from those described in these forward-looking statements include, but are not limited to, those discussed in the management's discussion and analysis, and elsewhere in this Prospectus, particularly the risk factors as set out in Section 7 of this Prospectus.

11.1 Overview of Our Business Activities

We are primarily involved in developing and manufacturing industrial adhesives, comprising water-based and hot melt adhesives, and sealants.

A small proportion of our business involves providing supporting products and services to our customers, which include certain OEM industrial adhesives and sealants, chemicals, adhesive repellents and cleaners, spare parts, and maintenance services. We also provide some of our customers with the use of adhesive mixing machines, although this is not a revenue generating activity.

Since the commencement of our business operations in 1996, we have established ourselves as a developer and manufacturer of industrial adhesives with business operations and manufacturing facilities in Malaysia and Vietnam, serving markets in Asia, Africa and Middle East countries.

Please refer to Section 5 of this Prospectus for further information about our business activities.

11.2 Overview of Our Financial Results

Our revenue is derived mainly from the development and manufacture of industrial adhesives, namely water-based and hot melt adhesives, which accounted more than 90.00% of our total revenue for the past four financial years. Our other revenue streams are from development and manufacture of sealants, and provision of supporting products and services.

We recognise revenue from water-based adhesives, hot melt adhesives, sealants and supporting products and services based on the sales of goods and services in the ordinary course of business, when sales orders are executed and ownership of the goods have been transferred to our customers, or when services have been rendered.

The products and services provided by Techbond Manufacturing and Techbond Sabah to our customers in Malaysia are priced in RM, and revenue is received in RM. With respect to products and services provided by Techbond Manufacturing and Techbond Sabah to customers in foreign countries, selling prices are mainly denominated in USD, and revenue is mainly received in USD.

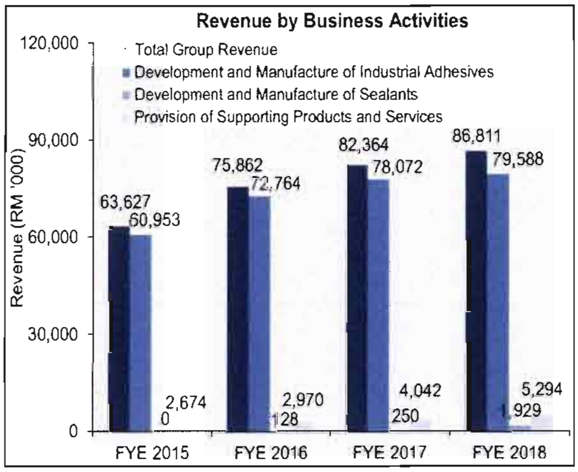
Products and services provided by Techbond Vietnam to its customers are priced mainly in VND, and revenue is mainly received in VND. However, the daily transactions that are recognised in Techbond Vietnam's accounting system and financial statements are denominated in USD.

The average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM are summarised in the following table:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Exchange rate relative to USD1.0000	RM3.4608	RM4.1322	RM 4.2881	RM4.0758
Change in the value of RM relative to USD compared to previous FYE*		19.40%	3.77%	(4.95%)

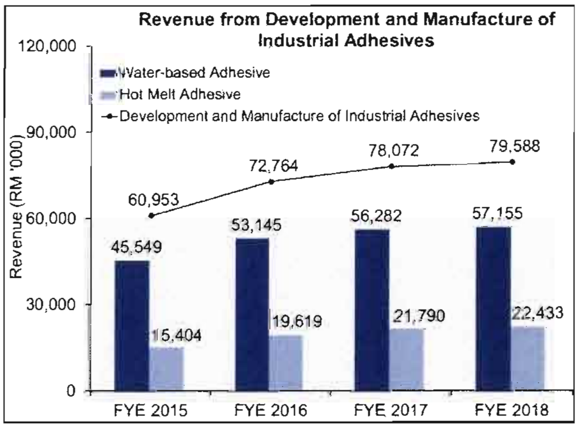
Note:

* A positive change in value would indicate that the value of the RM declined (depreciated) relative to the USD, while negative change in value would indicate that the value of the RM increased (appreciated) relative to the USD.



Our revenue from development and manufacture of industrial adhesives was RM79.59 million for the FYE 2018, accounting for 91.68% of our total revenue. During the FYE 2018, revenue from water-based adhesives was RM57.16 million (65.84% of total revenue), and from hot melt adhesives was RM22.43 million (25.84% of total revenue).

For the FYE 2018, our revenue from development and manufacture of sealants was RM1.93 million, accounting for 2.22% of our total revenue. This is relatively a new business for us, as we only began to sell sealants that were manufactured by an external supplier under one of our brands in 2013. We only began to manufacture our own sealants at our Shah Alam Factory Complex in 2015.

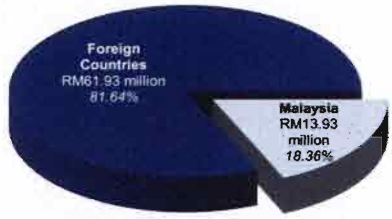


Our revenue from the provision of supporting products and services amounted to RM5.30 million and accounted for 6.10% of our total revenue for the FYE 2018.

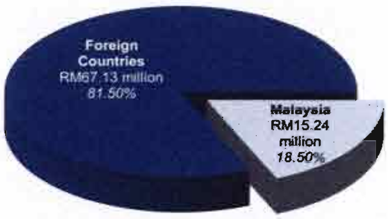
Our total revenue increased at a CAGR of 10.91% between the FYE 2015 and FYE 2018, from RM63.63 million to RM86.81 million. Our revenue growth during this period was driven mainly by water-based adhesives, which increased by RM11.61 million, from RM45.55 million in the FYE 2015 to RM57.16 million in the FYE 2018 (representing CAGR of 7.86% over this period). Revenue growth from hot melt adhesives also contributed towards our total revenue growth, increasing by RM7.03 million between the FYE 2015 and FYE 2018 (representing CAGR of 13.35% over this period). In addition, between FYE 2016 and FYE 2018, revenue from developing and manufacturing sealants increased by RM1.80 million representing CAGR of 288.21%. Supporting products and services increased by RM2.62 million, representing CAGR of 25.57% between the FYE 2015 and FYE 2018. Additional details relating to the changes in revenue of our business activities and products from year to year are discussed in Section 11.2.1.1 of this Prospectus.

A large proportion of our revenue was from sales to customers outside of Malaysia, as summarised below:

FYE 2015 Total Revenue: RM63.63 million



FYE 2016 Total Revenue: RM75.86 million



FYE 2017 Total Revenue: RM82.36 million

FYE 2018 Total Revenue: RM86.81 million

Our largest market was Vietnam, followed by Malaysia and Indonesia. Collectively, these three countries accounted for 88.70%, 88.60%, 86.51% and 85.96% of our total revenue for the FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively.

We also earned revenue from customers in China, Thailand, Cambodia, Liberia, Brunei, Singapore, UAE, Oman, Sri Lanka, Hong Kong, Laos, Maldives, Myanmar, the Philippines and Uganda between the FYE 2015 and FYE 2018. Additional details relating to our revenue by geographical markets are discussed in Section 11.2.1.2 of this Prospectus.

Our financial results for the past four financial years are further analysed in the following sections based on the following segments:

(i) business activities and products;

(ii) subsidiary companies; and

(iii) geographical markets.

11.2.1 Revenue

11.2.1.1 Revenue Segmented by Business Activities and Products

The following table summarises the breakdown of our total revenue by business activities and products:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Development and manufacture of industrial adhesives	**60,953**	**95.80**	**72,764**	**95.91**	**78,072**	**94.79**	**79,588**	**91.68**
Water-based adhesives	45,549	71.59	53,145	70.05	56,282	68.33	57,155	65.84
- *Woodworking*	*41,563*	*65.32*	*47,869*	*63.10*	*50,597*	*61.43*	*51,009*	*58.76*
- *Paper and packaging*	*3,228*	*5.08*	*4,056*	*5.34*	*4,260*	*5.17*	*4,977*	*5.73*
- *Other applications*	*758*	*1.19*	*1,220*	*1.61*	*1,425*	*1.73*	*1,169*	*1.35*
Hot melt adhesives	15,404	24.21	19,619	25.86	21,790	26.46	22,433	25.84
- *Paper and packaging*	*10,576*	*16.62*	*14,101*	*18.59*	*15,489*	*18.81*	*15,848*	*18.26*
- *Woodworking*	*4,038*	*6.35*	*4,540*	*5.98*	*5,486*	*6.66*	*5,815*	*6.70*
- *Other applications*	*790*	*1.24*	*978*	*1.29*	*815*	*0.99*	*770*	*0.88*
Development and manufacture of sealants	**-**	**-**	**128**	**0.17**	**250**	**0.30**	**1,929**	**2.22**
Provision of supporting products and services[(a)]	**2,674**	**4.20**	**2,970**	**3.92**	**4,042**	**4.91**	**5,294**	**6.10**
Total revenue	**63,627**	**100.00**	**75,862**	**100.00**	**82,364**	**100.00**	**86,811**	**100.00**

Note:

(a) Supporting products and services include OEM industrial adhesives and sealants, chemicals, adhesive repellents and cleaners, and spare parts and maintenance services.

Total Number of Customers

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Customers[(a)]	**No.**	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
New	190	23.31	142	16.88	167	19.11	135	15.45
Repeat[(b)]	625	76.69	699	83.12	707	80.89	739	84.55
Total	**815**	**100.00**	**841**	**100.00**	**874**	**100.00**	**874**	**100.00**

Notes:

(a) The number of customers disclosed pertains to actual number of customers that had dealings with our Group for the respective financial years.

(b) Repeat customers are customers who have bought from us in prior financial years.

FYE 2016 compared to FYE 2015

Our total revenue increased by RM12.24 million or 19.23% to RM75.86 million for the FYE 2016. This was driven mainly by an increase in revenue from the development and manufacture of industrial adhesives, particularly for water-based adhesives, which accounted for 70.05% of our total revenue for the FYE 2016.

(a) Development and Manufacture of Water-based Adhesives

For the FYE 2016, our revenue from water-based adhesives increased by RM7.60 million or 16.68% to RM53.15 million, due mainly to the following:

(i) increase in sales of RM6.27 million for woodworking applications due mainly to an increase in quantity sold of 447 tonnes to a repeat customer in Indonesia, as well as the depreciation of the RM relative to the USD, which increased the RM denominated price of products;

(ii) increased sales of RM0.83 million for paper and packaging applications due mainly to an increase in quantity sold for bottle labelling segment from a repeat customer in Indonesia of 21 tonnes, and increase in quantity sold for paper and carton packaging applications from new customers in Vietnam of 47 tonnes due to increased promotional activities by our sales and marketing personnel; and

(iii) increased sales for water-based adhesives for other applications of RM0.46 million, mainly from sales of cigarettes applications due to an increase in quantity sold of 79 tonnes to a repeat customer in Cambodia, and 23 tonnes to a repeat customer in Vietnam.

(b) Development and Manufacture of Hot Melt Adhesives

Revenue from manufacturing hot melt adhesives also increased by RM4.22 million or 27.36% to RM19.62 million for the FYE 2016, due mainly to the following:

(i) increase in sales of hot melt adhesives for paper and packaging applications due to our participation in exhibitions and roadshows, which resulted in sales of RM0.33 million secured from 13 new customers as well as increase in sales of RM3.20 million to repeat customers. This represents a 23.58% increase in quantity sold from 810 tonnes to 1,001 tonnes;

(ii) increase in sales for hot melt adhesives for woodworking applications of RM0.21 million due to the increase in sales volume of 22 tonnes from 13 new customers and 46 repeat customers, and depreciation of the RM relative to the USD, which accounted for an increase of RM0.29 million sales for woodworking applications; and

(iii) increased sales for hot melt adhesives for other applications of RM0.19 million, mainly from sales of mattress applications by 8 tonnes to customers in Vietnam.

(c) **Development and Manufacture of Sealants and Provision of Supporting Products and Services**

Revenue from manufacturing sealants was RM127,729 for the FYE 2016, where we sold our products to 40 new customers with sales quantity amounting to 18 tonnes due to increased promotional activities of our new product as well intensified sales effort by our sales and marketing team.

Our revenue from provision of supporting products and services for the FYE 2016 increased by RM0.30 million, contributed mainly by the supply of chemical such as hardeners for coating application based on requests from our customers.

Generally, the sales of our products are dependent on the performance of the user industries. As such, the improved performance of our sales for the FYE 2016 was a result of increased orders from customers predominantly involved in woodworking, paper and packaging, cigarettes, and mattress applications industries.

FYE 2017 compared to FYE 2016

For the FYE 2017, our total revenue increased by RM6.50 million or 8.57% to RM82.36 million. All segments registered growth, with the hot melt adhesives having a higher percentage growth compared to the water-based adhesives in the FYE 2017.

(a) **Development and Manufacture of Water-based Adhesives**

Revenue from manufacturing water-based adhesives increased by RM3.14 million or 5.90% to RM56.28 million for the FYE 2017 due mainly to the following:

(i) higher sales by our Malaysia operations of RM1.91 million was due mainly to the increase in quantity sold of 241 tonnes to a repeat customer in Malaysia, and 357 tonnes to a repeat customer in China for woodworking applications.

The higher sales by our Vietnam operations of RM0.81 million for woodworking applications was due mainly to the depreciation of the RM relative to the USD;

(ii) increased sales of RM0.20 million for paper and packaging applications from our Vietnam operations due mainly to the increase in quantity sold of 12 tonnes to 6 new customers, and 19 tonnes to 13 repeat customers as a result of the introduction of a new product range for bottle labelling; and

(iii) increased sales for water-based adhesives for other applications of RM0.21 million, mainly from sales of cigarette applications to new customers secured in Vietnam, Cambodia and UAE, respectively that collectively accounted for 12 tonnes of quantity sold, contributed by increased promotional activities of our sales and marketing personnel in these regions for the year.

(b) Development and Manufacture of Hot Melt Adhesives

Our revenue from manufacturing hot melt adhesives amounted to RM21.79 million, having grown RM2.17 million or 11.07% compared to FYE 2016. This revenue growth was contributed mainly by the following:

(i) higher demand from the paper and packaging applications, contributed by sales of RM0.48 million to 20 new customers of 34 tonnes, as well as increase in quantity sold of 65 tonnes to repeat customers of RM0.91 million;

(ii) higher demand from the woodworking applications contributed by sales of RM0.48 million to 27 new customers of 36 tonnes, as well as increase in the quantity sold of 62 tonnes with sales of RM0.47 million to repeat customers; and

(iii) increase in revenue mentioned above was slightly offset by the decline in sales for hot melt adhesives for other applications of RM0.16 million due mainly to the lower quantity sold for cigarettes by four tonnes as a result of market competition, and lower quantity sold of 18 tonnes for mattress applications due mainly to aggressive pricing strategy adopted by our competitors.

(c) Development and Manufacture of Sealants and Provision of Supporting Products and Services

For the FYE 2017, our revenue from development and manufacture of sealants increased by RM0.12 million to RM0.25 million, with a total quantity sold of 58 tonnes. The increase was contributed mainly by the four new customers secured during the year, which contributed to total sales of 46 tonnes of sealants, with revenue contribution of RM0.15 million.

The increase in revenue from provision of supporting products and services of RM1.07 million or 36.09% to RM4.04 million in FYE 2017 was contributed mainly by the increase in quantity sold of 99 tonnes of OEM industrial adhesives and sealants to repeat customers for production of personal care products valued at RM3.73 million.

The improved performance of our sales for the FYE 2017 was a result of the increased promotional activities, mainly in Vietnam. New customers from the woodworking as well as, paper and packaging segments helped improve our revenue for the year.

<u>FYE 2018 compared to FYE 2017</u>

For the FYE 2018, our total revenue increased by RM4.45 million, or 5.40%, to RM86.81 million. We registered growth in all segments, with the largest percentage growth for the FYE 2018 coming from the development and manufacturing of sealants.

(a) Development and Manufacture of Water-based Adhesives

Revenue from manufacturing water-based adhesives increased by RM0.87 million or 1.55%, to RM57.16 million for the FYE 2018 due mainly to the following:

(i) increased sales by our Malaysia operations of RM0.43 million due mainly to the increase in quantity sold of 54 tonnes to a repeat customer in Indonesia and 35 tonnes to a repeat customer in Thailand for woodworking applications.

(ii) higher sales of RM0.16 million for paper and packaging applications from our Malaysia operations due mainly to the increase in quantity sold of 27 tonnes to 26 repeat customers in Cambodia, Indonesia and Malaysia, as well as two new customers in Malaysia.

Increased sales of RM0.56 million for paper and packaging applications from our Vietnam operations due mainly to the increase in quantity sold of 71 tonnes to 18 repeat customers and four new customers also contributed to the increase in revenue; and

(iii) increased sales of RM0.14 million for building and construction applications due to an increase in quantity sold of 37 tonnes to three repeat customers in Malaysia.

However, the increase mentioned above was offset by the decrease in sales for cigarette applications of RM0.40 million due mainly to the lower quantity sold of 83 tonnes to repeat customers in Vietnam and Cambodia.

(b) Development and Manufacture of Hot Melt Adhesives

Our revenue from manufacturing hot melt adhesives amounted to RM22.43 million for the FYE 2018, with growth of RM0.64 million or 2.95% compared to FYE 2017. This revenue growth was contributed mainly by the following:

(i) increased sales of RM0.50 million from the paper and packaging applications by our Malaysia operations, contributed by sales of three tonnes to seven new customers in Uganda, Maldives and Malaysia, as well as higher quantity sold of 66 tonnes to 35 repeat customers in Cambodia, Indonesia, Singapore, Malaysia and Thailand.

The above increase was offset by the lower sales of our Vietnam operations of RM0.14 million for paper and packaging applications due mainly to the appreciation of the RM relative to the USD;

(ii) increased sales of RM0.35 million for woodworking applications by our Vietnam operations due mainly to the increase in quantity sold of 43 tonnes to 97 repeat customers and eight tonnes to 13 new customers.

The above increase was offset by the slightly lower sales by our Malaysia operations of RM0.02 million for woodworking applications as a result of lower average selling price in response to stiff competition; and

(iii) increase in revenue mentioned above was offset by the decline in sales for mattress applications of RM0.05 million due mainly to aggressive pricing strategy adopted by our competitors.

(c) Development and Manufacture of Sealants and Provision of Supporting Products and Services

For the FYE 2018, our revenue from the development and manufacture of sealants increased by RM1.68 million or 671.60%. This was contributed mainly by the increase in quantity sold of 543 tonnes to 24 repeat customers.

Our revenue from provision of supporting products and services increased by RM1.25 million or 30.97% to RM5.29 million in the FYE 2018. This was contributed mainly by the supply of chemicals such as hardeners of RM1.03 million to a customer in China and Malaysia.

The improved performance of our sales for the FYE 2018 was a result of the increased orders from customers due to the competitive pricing strategy adopted by the Group during the year as a response to stiff market competition.

11.2.1.2 Revenue Segmented by Geographical Markets

The table below presents the breakdown of our total revenue by geographical markets:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Malaysia	**13,682**	**21.50**	**13,932**	**18.36**	**15,238**	**18.50**	**17,683**	**20.37**
Foreign Markets	**49,945**	**78.50**	**61,930**	**81.64**	**67,126**	**81.50**	**69,128**	**79.63**
Vietnam	*36,175*	*56.85*	*43,344*	*57.14*	*46,522*	*56.48*	*46,812*	*53.92*
Indonesia	*6,584*	*10.35*	*9,939*	*13.10*	*9,495*	*11.53*	*10,127*	*11.67*
China	*4,252*	*6.68*	*3,846*	*5.07*	*5,543*	*6.73*	*5,990*	*6.90*
Others	*[(a)] 2,934*	*4.62*	*[(b)] 4,801*	*6.33*	*[(c)] 5,566*	*6.76*	*[(d)] 6,199*	*7.14*
Total	**63,627**	**100.00**	**75,862**	**100.00**	**82,364**	**100.00**	**86,811**	**100.00**

Notes:

(a) Comprised of Thailand, Cambodia, Liberia, Brunei, Singapore, UAE, Sri Lanka, Hong Kong, Laos, Myanmar and the Philippines.

(b) Comprised of Thailand, Cambodia, Liberia, Brunei, Singapore, UAE, Sri Lanka, Hong Kong, Myanmar and Laos.

(c) Comprised of Thailand, Cambodia, Liberia, Oman, Brunei, Singapore, UAE, Sri Lanka, and Hong Kong.

(d) Comprised of Thailand, Cambodia, Brunei, Liberia, Singapore, Sri Lanka, Maldives, Hong Kong and Uganda.

FYE 2016 compared to FYE 2015

The increase in revenue from customers in **Malaysia** of RM0.25 million or 1.83% to RM13.93 million for the FYE 2016 was attributed mainly to sales of water-based and hot melt adhesives amounted to RM0.58 million secured from a total of 67 new customers in FYE 2016.

However, this increase was partially offset by a decrease of RM0.33 million in sales to repeat customers, from RM13.68 million in the FYE 2015 to RM13.36 million in the FYE 2016. The decline was a result of our Management's decision to control the supply of our water-based adhesives for paper and carton packaging to a repeat customer due to its long outstanding receivables. In this respect, the sales to the said customer decreased by RM0.22 million, from RM0.78 million in the previous year.

Revenue from sales to customers in **foreign markets** increased by RM11.99 million or 24.00% to RM61.93 million in the FYE 2016. This increase was derived mainly from Vietnam and Indonesia, which accounted for almost 88% of the total foreign sales.

- Our revenue from customers in **Vietnam** increased by RM7.17 million or 19.82% to RM43.34 million for the FYE 2016 due mainly to the depreciation of the RM relative to the USD. The analysis of revenue transacted in USD is as follows:

Vietnam	FYE 2015	FYE 2016	Variance (FYE 2015 to FYE 2016)	
Revenue (RM'000)	36,175	43,344	7,169	19.82%
Revenue (USD'000)[(a)]	10,453	10,489	36	0.34%
Exchange rate to USD1	*RM3.4608*	*RM4.1322*	*RM0.6714*	*19.40%*

Note:

(a) Based on the average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM.

Revenue denominated in USD only increased by 0.34% due to the increase of 2.17% in average selling price in USD per tonne, although the quantity sold decreased by 1.78% to 6,274 tonnes in FYE 2016.

- Our revenue from customers in **Indonesia** increased by RM3.36 million or 50.96% to RM9.94 million for the FYE 2016 due mainly to higher demand for our water-based adhesives for woodworking from a repeat customer, with an increase of 44.14% in quantity sold, from 1,083 tonnes in FYE 2015 to 1,561 tonnes in FYE 2016.

- Our revenue from customers in **China** decreased by RM0.41 million or 9.55% to RM3.85 million due mainly to a decline in sales of water-based adhesives for woodworking application to a repeat customer, from 920 tonnes in product quantity sold in FYE 2015 to 655 tonnes for the FYE 2016.

- Revenue from **other countries** increased by RM1.87 million or 63.65% to RM4.80 million, which was contributed mainly by the increase in sales of hot melt adhesives for paper and packaging, as well as water-based adhesives for glass bottle labelling to customers in Cambodia amounting to RM0.94 million. There was also an increase in sales of water-based adhesives for woodworking application of RM0.60 million to customers in Liberia.

FYE 2017 compared to FYE 2016

The higher revenue from customers in **Malaysia** of RM1.31 million or 9.37% to RM15.24 million in the FYE 2017 was attributed mainly to sales of water-based and hot melt adhesives, as well as sealants of RM1.19 million secured from a total of 56 new customers in the FYE 2017. The main contributors are local customers involved in the woodworking, and paper and packaging industries.

Revenue from sales to customers in **foreign markets** increased by RM5.20 million or 8.39% to RM67.13 million in the FYE 2017. This increase was driven mainly by the increase in the following:

- For the FYE 2017, our revenue from customers in **Vietnam** grew by RM3.18 million or 7.33% to RM46.52 million. This was attributed mainly to new sales of water-based and hot melt adhesives of RM2.63 million secured from a total of 105 new customers during the year.

  In addition, the increase was also partly attributed to the depreciation of the RM relative to the USD as all its sales were recorded in USD. The analysis of revenue transacted in USD is as follows:

Vietnam	FYE 2016	FYE 2017	Variance (FYE 2016 to FYE 2017)	
Revenue (RM'000)	43,344	46,522	3,178	7.33%
Revenue (USD'000) [(a)]	10,489	10,849	360	3.43%
Exchange rate to USD1	*RM4.1322*	*RM4.2881*	*RM0.1559*	*3.77%*

  Note:

  (a) Based on the average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM.

- Lower revenue from customers in **Indonesia** of RM0.44 million or 4.47% to RM9.50 million was attributed mainly to a decline in sales of water-based adhesives for woodworking, where sales volume decreased by 68 tonnes to 1,219 tonnes in the FYE 2017.

- Higher revenue from customers in **China** of RM1.70 million or 44.12% to RM5.54 million was driven by increased sales of water-based adhesives for woodworking to a repeat customer, with an increase in quantity sold by 354 tonnes to 1,009 tonnes in the FYE 2017.

- Increased revenue from **other countries** of RM0.77 million or 15.93% to RM5.57 million was contributed mainly by the increase in sales of hot melt adhesives for paper and packaging for glass bottle labelling to customers in Cambodia by RM1.31 million.

  However, the increase was partially offset by the decrease in sales of water-based adhesives for woodworking to a customer in Liberia where the revenue decreased by RM0.75 million in the FYE 2017.

FYE 2018 compared to FYE 2017

Our revenue from customers in **Malaysia** increased by RM2.45 million or 16.05% to RM17.68 million. This was attributed to increased sales of water-based and hot melt adhesives of RM0.71 million due mainly to quantity sold of 44 tonnes to 25 new customers and higher quantity sold of 132 tonnes to 329 repeat customers involved mainly in the woodworking, building and construction, and mattress industries. Higher sales of sealants of RM1.67 million secured from 19 repeat customers involved in building and construction industry also contributed to the increased sales to customers in Malaysia.

Revenue from sales to customers in **foreign markets** increased by RM2.00 million or 2.98% to RM69.13 million in the FYE 2018. This growth was driven mainly by the increase in the following:

- Our revenue from customers in **Vietnam** grew by RM0.29 million or 0.62% to RM46.81 million for the FYE 2018 due mainly to increased sales of water-based adhesives for paper and packaging to our repeat customers, with an increase in quantity sold of 71 tonnes to 496 tonnes, as well as increased sales of hot melt adhesives for woodworking applications of 51 tonnes to 296 tonnes.

- Increase in revenue from our customers in **Indonesia** of RM0.63 million or 6.66% to RM10.13 million was attributed mainly to increased sales of water-based adhesives for woodworking, and paper and packaging industries, as well as hot melt adhesives for woodworking applications to a repeat customer, where sales volume increased by 97 tonnes to 1,411 tonnes.

- Higher revenue from our customers in **China** of RM0.45 million or 8.06% to RM5.99 million was driven mainly by the supply of hardeners to a repeat customer in China of RM1.01 million. However, the increase was offset by a decline in sales of water-based adhesives for woodworking applications of RM0.56 million due to lower demand from the same repeat customer of 115 tonnes.

- Increased revenue from **other countries** of RM0.63 million or 11.37% to RM6.20 million, was contributed mainly by increased sales of hot melt adhesives for paper and packaging for glass bottle labelling that amounted to RM0.81 million from an existing customer in Cambodia. However, the above increase in revenue was offset by the decrease in sales of water-based adhesives for woodworking of RM0.18 million to a customer in Liberia.

For the past four financial years, Vietnam has been our largest market with revenue contributions in excess of 53%, coupled with the second highest margin derived for our Group. This trend is expected to continue in the future with the growth in the Vietnam market outpacing the growth in other countries that we currently sell to.

11.2.1.3 Revenue Segmented by Subsidiary Companies

Our total revenue segmented by subsidiary companies is presented in the following table:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Revenue[(a)]	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Techbond[(b)]	-	-	-	-	-	-	-	-
Techbond Manufacturing	27,066	42.54	30,407	40.08	33,465	40.63	37,505	43.20
Techbond Vietnam	35,998	56.58	43,269	57.04	46,546	56.51	47,193	54.36
Techbond Sabah	563	0.88	2,186	2.88	2,353	2.86	2,113	2.44
Techbond International[(c)]	-	-	-	-	-	-	-	-
Techbond Mfg Vietnam[(d)]	-	-	-	-	-	-	-	-
Total	**63,627**	**100.00**	**75,862**	**100.00**	**82,364**	**100.00**	**86,811**	**100.00**

Notes:

(a) Inter-company transactions have been eliminated.

(b) Techbond was incorporated on 8 June 2016 and has been dormant since its incorporation.

(c) Techbond International was incorporated on 30 March 2016 and has been dormant since its incorporation.

(d) Techbond Mfg Vietnam was incorporated on 14 October 2016 and has been dormant since its incorporation.

Techbond Manufacturing's revenue was on an increasing trend and grew by 38.57% between the FYE 2015 and the FYE 2018.

- For the FYE 2016, the increase in revenue was contributed mainly by the increase in sales of RM3.00 million or 21.49% from our water-based adhesives for woodworking to RM16.98 million with sales to customers in Malaysia, Indonesia, and Liberia. The additional quantity sold was 566 tonnes compared to the previous year. In addition, sales of hot melt adhesives for paper and packaging increased by RM1.23 million to RM7.39 million in FYE 2016, due mainly to the increased in quantity sold of 38 tonnes to a customer in Cambodia.

  However, the increase above was partially offset by a decrease in quantity sold of 127 tonnes to a repeat customer in Malaysia for our water-based adhesives specifically for paper and carton packaging of RM0.23 million.

- For the FYE 2017, the increase in revenue was contributed mainly by the increase in sales of RM2.07 million from our water-based adhesives for woodworking applications to RM19.04 million with sales to customers in Malaysia and China. The additional quantity sold was 655 tonnes compared to the previous year. In addition, revenue from our hot melt adhesives for paper and packaging increased by RM0.92 million to RM8.31 million in the FYE 2017, attributed primarily to an increase in quantity sold of 73 tonnes to customers in Cambodia.

- For the FYE 2018, the increase in revenue was contributed mainly by increased sales of sealants of RM1.67 million to customers in Malaysia, and increased supply of chemicals such as hardeners of RM1.03 million to a customer in China and Malaysia. Increased sales of water-based and hot melt adhesives for paper and packaging applications of RM1.30 million from a repeat customer in Cambodia and Thailand also contributed to the increased revenue for the FYE 2018.

Techbond Vietnam's revenue was also on an increasing trend and grew by 31.10% between the FYE 2015 and the FYE 2018.

- For the FYE 2016, the increase in revenue was due mainly to the depreciation of the RM relative to the USD as the revenue denominated in USD was relatively flat, with the slight increase coming from the increased selling price of our hot-melt adhesives for paper and packaging and woodworking applications. However, this increase was partially offset by the decrease in sales volume of water-based adhesives for woodworking, and paper and packaging applications from 5,611 tonnes in FYE 2015 to 5,350 tonnes in FYE 2016.
- For the FYE 2017, the increase in revenue was attributed mainly to the increase in sales of RM1.30 million from water-based adhesives for woodworking, and paper and packaging applications. This is due to the increase in quantity sold of 29 tonnes and 30 tonnes, respectively. Sales from hot melt adhesives for woodworking, and paper and packaging increased by RM0.91 million, attributed primarily to an increase in quantity sold of 33 tonnes and 44 tonnes, respectively. Increased sales of OEM industrial adhesives for personal care applications of RM0.89 million to 14 customers in Vietnam and Cambodia also contributed to the overall increase in revenue for the FYE 2017.
- For the FYE 2018, the increase in revenue was attributed mainly to the increase in sales of RM0.54 million from water-based adhesives for woodworking, and paper and packaging due to the increase in quantity sold of 111 tonnes and 73 tonnes. Sales from hot melt adhesives for woodworking, and paper and packaging increased by RM0.22 million, attributed primarily to an increase in quantity sold of 51 tonnes and 35 tonnes. However, the above was offset by a decrease in hot melt adhesives for mattress applications of RM0.11 million due mainly to aggressive pricing strategy adopted by our competitors.

Previously, **Techbond Sabah** was the sales and marketing agent for Techbond Manufacturing for customers in Sabah and Brunei. As such, its revenue comprised mainly of commission income received from Techbond Manufacturing. In view of an internal reorganisation in April 2015, sales revenue from customers in Sabah and Brunei were since recorded directly under Techbond Sabah.

- For the FYE 2016, Techbond Sabah's revenue increased significantly by 288.10% due to the full year recognition of sales revenue as compared to only three months of sales revenue recorded in the FYE 2015, as discussed above.
- For the FYE 2017, Techbond Sabah's revenue increased by 7.64%, which was contributed mainly by the increase in quantity sold of hot melt adhesives for woodworking applications of 36 tonnes.
- For the FYE 2018, Techbond Sabah's revenue declined by 10.20% due mainly to the lower quantity sold of hot melt adhesives for woodworking applications to a repeat customer of 8 tonnes, amounting to RM0.06 million, and the loss of a customer that had discontinued its manufacturing operations in Sabah. The aforesaid customer contributed RM0.14 million sales of water-based woodworking applications in the previous year.

Please refer to Section 11.2.1.1 of this Prospectus for further analysis on revenue by business activities and products.

11.2.2 Cost of Sales

The table below provides a breakdown of our cost of sales:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Cost of Sales	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Raw materials[(a)]	38,770	86.40	45,034	87.11	46,461	82.92	52,081	84.82
Packing materials	1,988	4.43	2,826	5.47	3,207	5.72	2,316	3.77
Labour costs[(b)]	1,758	3.92	2,007	3.88	2,293	4.09	2,490	4.05
Research expenses	737	1.64	674	1.30	750	1.34	815	1.33
Others[(c)]	1,619	3.61	1,157	2.24	3,323	5.93	3,700	6.03
Total	**44,872**	**100.00**	**51,698**	**100.00**	**56,034**	**100.00**	**61,402**	**100.00**

Notes:

(a) Includes import tax.

(b) Comprises direct and indirect staff costs.

(c) Comprises depreciation and amortisation, transportation, import expenses, electricity and water charges, upkeep of equipment, factory, forklift, plant and machinery, other direct overhead expenditure, freight charges, and the difference between opening and closing inventories.

(i) Raw Materials

Raw materials constitute the largest component of our cost of sales. Our raw materials include the base adhesive materials and additives that we use to manufacture our industrial adhesives and sealants, which include amongst others, PVAc polymer, EVA emulsion, EVA polymer, styrene butadiene copolymer ("**SBR**") latex, polyolefin polymer, tackifier, plasticizer, and hardeners. As these plastics and polymer based materials are globally traded, they are subject to price fluctuations or volatility.

In this respect, we are subjected to the risk of any unfavourable fluctuations in the prices of the raw materials that we use. Prices of plastics and polymer based materials are influenced by global macroeconomic factors including supply, demand and currency exchange rates. Please refer to Sections 5.16 of this Prospectus for further details on the types of raw materials that we purchase.

The increasing trend of our cost of sales of raw materials between the FYE 2016 and FYE 2018 was in line with the increasing trend in the manufacturing output. The higher increase in our cost of sales of raw materials for the FYE 2016 of 16.16% was due mainly to the increased in cost of imported raw materials as a result of depreciation of the RM relative to the USD. Further, the increase in cost of sales of raw materials for the FYE 2018 of 12.10% was due mainly to the increase in quantity purchased and the increase in the USD denominated price of our imported raw materials.

(ii) Packing Materials

The packing materials that we purchased consist mainly of plastic drums, bottles, pails, laminated woven bags, plastic bags, and carton boxes. Cost of sales of packing materials increased by 42.15% for the FYE 2016 and 13.48% for the FYE 2017, which was in line with the increasing trend in the manufacturing output. The decrease of packing materials cost and the use of some recycled steel drums as packing material had decreased our cost of sales of packing materials by 27.78%, for the FYE 2018.

(iii) Labour Costs

Labour costs include direct and indirect staff costs for our operations in Malaysia and Vietnam. Direct and indirect staff costs include salaries, bonus and allowances, contributions to defined contribution plans, and social security contributions. Our labour costs increased by 14.16% for the FYE 2016, and 14.25% for the FYE 2017 due mainly to the depreciation of the RM relative to the USD (as all of our Vietnam staff costs were recorded in USD). The increased labour costs of 8.59% in the FYE 2018 was due mainly to the salary adjustment of minimum wage from VND3,750,000 per month to VND3,980,000 per month for our staffs in Vietnam pursuant to Decree No. 141/2017/ND-CP issued by the State of Vietnam on 7 December 2017.

(iv) Research Expenses

Research expenses consist of costs relating to our R&D centre at the Shah Alam Factory Complex. They comprised the following:

(i) operating expenses, including salaries, bonus and allowances, contributions to defined contribution plans, and social security contributions for the R&D personnel, sundry insurance, lab expenses, and utility charges; and

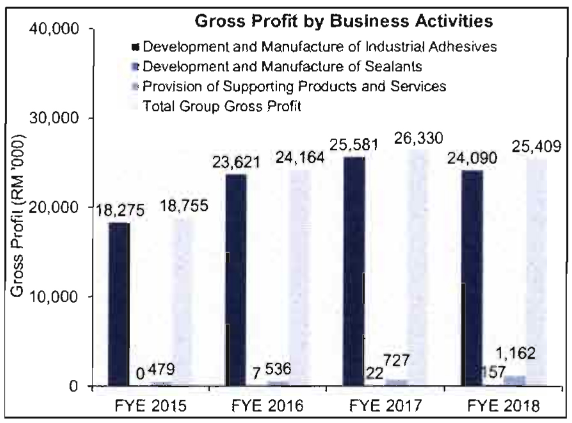
(ii) depreciation expenses on laboratory and other equipment.

(v) Others

Other cost of sales include depreciation and amortisation, transportation, import and export expenses, electricity and water charges, upkeep of equipment, factory, forklift, plant and machinery, other direct overhead expenditure, freight charges, and the difference between opening and closing inventories.

Other cost of sales declined by 28.58% for the FYE 2016 and subsequently increased by 187.21% and 11.35% for the FYE 2017 and FYE 2018, respectively.

11.2.3 Our GP Performance



Our total GP grew from RM18.76 million for the FYE 2015 to RM25.41 million for the FYE 2018, which represented CAGR of 10.65% over this period. This growth in our GP was contributed mainly by manufacturing of hot melt adhesives, sealants and supporting products and services. GP from manufacturing hot melt adhesives grew by RM3.16 million between FYE 2015 and FYE 2018, which represented CAGR of 21.86%. Our GP from manufacturing sealants increased from approximately RM7,000 for the FYE 2016 to RM0.16 million for the FYE 2018, which represents CAGR of 373.59%. In addition, GP from providing supporting products and services also increased, from RM0.48 million in the FYE 2015 to RM1.16 million in the FYE 2018, which represented CAGR of 34.37%. GP from manufacturing water-based adhesives increased by RM2.65 million between FYE 2015 and FYE 2018, to RM17.03 million.

11.2.3.1 GP and GP Margin Segmented by Business Activities and Products

The breakdown of our total GP by business activities and products is provided in the following tables:

	FYE 2015			FYE 2016			FYE 2017			FYE 2018		
GP	RM'000	%	GP margin %	RM'000	%	GP margin %	RM'000	%	GP margin %	RM'000	%	GP margin %
Development and manufacture of industrial adhesives	**18,275**	**97.44**	**29.98**	**23,621**	**97.75**	**32.46**	**25,581**	**97.16**	**32.77**	**24,090**	**94.81**	**30.27**
Water-based adhesives	14,371	76.62	31.55	17,728	73.37	33.36	19,426	73.78	34.52	17,025	67.00	29.79
- *Woodworking*	*13,589*	*72.45*	*32.69*	*16,670*	*68.99*	*34.82*	*17,858*	*67.82*	*35.29*	*15,470*	*60.88*	*30.33*
- *Paper and packaging*	*603*	*3.22*	*18.68*	*742*	*3.07*	*18.29*	*1,143*	*4.34*	*26.83*	*1,266*	*4.98*	*25.44*
- *Other applications*	*179*	*0.95*	*23.61*	*316*	*1.31*	*25.90*	*425*	*1.62*	*29.82*	*289*	*1.14*	*24.72*
Hot melt adhesives	3,904	20.82	25.34	5,893	24.39	30.04	6,155	23.38	28.25	7,065	27.81	31.49
- *Paper and packaging*	*2,314*	*12.34*	*21.88*	*3,963*	*16.40*	*28.10*	*3,913*	*14.86*	*25.26*	*4,532*	*17.84*	*28.60*
- *Woodworking*	*1,391*	*7.42*	*34.45*	*1,584*	*6.56*	*34.89*	*1,936*	*7.36*	*35.29*	*2,217*	*8.73*	*38.13*
- *Other applications*	*199*	*1.06*	*25.19*	*346*	*1.43*	*35.38*	*306*	*1.16*	*37.55*	*316*	*1.24*	*41.04*
Development and manufacture of sealants	-	-	-	**7**	**0.03**	**5.47**	**22**	**0.08**	**8.80**	**157**	**0.62**	**8.14**
Provision of supporting products and services[a]	**480**	**2.56**	**17.91**	**536**	**2.22**	**18.05**	**727**	**2.76**	**17.99**	**1,162**	**4.57**	**21.95**
Total	**18,755**	**100.00**	**29.48**	**24,164**	**100.00**	**31.85**	**26,330**	**100.00**	**31.97**	**25,409**	**100.00**	**29.27**

Note:

(a) Supporting products and services include OEM industrial adhesives and sealants, chemicals, adhesive repellents and cleaners, and spare parts and maintenance services.

FYE 2016 compared to FYE 2015

Our total GP for the FYE 2016 has increased by RM5.41 million or 28.84% to RM24.16 million. Our total GP margin also improved from 29.48% to 31.85% for the year. The improvement in GP and GP margin were contributed mainly by the development and manufacture of water-based adhesives.

(a) **Development and Manufacture of Water-based Adhesives**

GP for the FYE 2016 increased by RM3.36 million or 23.36%, to RM17.73 million. GP margin from this segment also improved from 31.55% to 33.36% for the year. This was contributed mainly by the woodworking applications.

- GP **for woodworking applications** increased by RM3.08 million or 22.67% to RM16.67 million, while GP margin improved from 32.69% to 34.82%. This was due mainly to the improvement in GP and GP margin from high water-resistant type adhesives as a result of both an increase of 14.20% in the average selling price of this product, sold mainly to a repeat customer in Indonesia, as well as the impact of the depreciation of the RM relative to the USD.

  GP **for paper and packaging applications** increased by RM0.14 million or 23.05% to RM0.74 million for the FYE 2016. This was attributed mainly by the improvement in GP from our Vietnam operations as a result of the depreciation of the RM relative to the USD.

  Despite the improved GP, our GP margin declined slightly from 18.68% to 18.29% for the FYE 2016 due mainly to the increase in average cost of sales per tonne for paper and carton packaging. The increase in average cost of sales per tonne is due primarily the increased cost of imported PVAc polymer during the year.

- The GP **for other applications** increased by RM0.14 million or 76.54% to RM0.32 million in the FYE 2016. GP margin also increased by 2.29% to 25.90%. The increase in GP and GP margin were contributed mainly by the following:

  (i) higher GP for cigarette application of RM0.12 million as a result of the higher sales to repeat customers in Cambodia and Vietnam. However, the GP margin declined from 43.37% to 24.80% in FYE 2016 due to the decline in average selling price of 10.11% to secure additional sales of 79 tonnes or RM0.38 million to customers in Cambodia. The increase in average cost of sales for cigarette application of 19.26% for the FYE 2016 was due mainly to the increased price of vinyl acetate ethylene ("**VAE**") polymer purchased from Malaysia, which had also contributed to the declined GP margin; and

  (ii) GP for automotive applications increased by RM17,000 to RM35,000. The GP margin from water-based adhesives for automotive application also improved from 9.84% to 36.84% for the FYE 2016, due mainly to the decline in average cost of sales per tonne as a result of the cheaper price for the raw materials, i.e. acrylic that we obtained from a new supplier in Malaysia.

(b) Development and Manufacture of Hot Melt Adhesives

For the FYE 2016, the GP increased by RM1.99 million or 50.95% to RM5.89 million. GP margin improved from 25.34% to 30.04% for the year. This was contributed mainly by the paper and packaging applications.

- The growth in GP was contributed mainly by the higher GP contribution of *HYDROMELT* adhesives, EVA type and *INNOMELT* type of **hot melt adhesives for paper and packaging applications** of RM1.43 million as a result of the increased sales volume of these said products. The improvement in GP was also contributed by the depreciation of the RM relative to the USD from our Vietnam operations.

  The improvement in GP margin was contributed by the increase of 1.34% in average selling price per tonne for the EVA type of hot melt adhesives for paper and packaging due to our improved pricing strategy adopted during the year. There was also a decrease of 12.15% in the average cost of sales per tonne from our Malaysia operations due to the decline in the global market price of EVA polymer.

  The decrease of 25.27% in the average cost of sales in USD per tonne from our Vietnam operations also contributed to the higher GP margin as the margins for our *INNOMELT* type of hot melt adhesives for paper and packaging had improved from 24.19% to 33.29% for the FYE 2016. This in turn contributed to the decrease of 19.19% in the average cost of sales in USD per tonne from our Vietnam operations.

- Our GP **for woodworking applications** increased by RM0.19 million or 13.87% to RM1.58 million for the FYE 2016, and GP margin increased slightly, from 34.45% to 34.89%. The increased GP was contributed by the slightly higher sales of low operating temperature type of hot melt adhesives.

  The marginal increase in GP margin was contributed mainly from our Malaysia operations for the low operating temperature type of hot melt adhesives for woodworking application. GP margin improved from 17.63% to 24.67% for the FYE 2016, due mainly to the decrease of 4.96% in average cost of sales per tonne. The decrease in average cost of sales per tonne was due mainly to the reduction in the global market price of EVA polymer.

  However, the above improved GP margin was offset by the decline in GP margin from our Vietnam operations for our low operating temperature type of hot melt adhesives for woodworking application, from 48.33% to 43.00% for the FYE 2016, which was due mainly to the decline in average selling price in USD per tonne. The decline in average selling price in USD per tonne was in response to the stiff market competition in Vietnam during the year.

- GP **for other applications** increased by RM0.15 million or 73.87% to RM0.35 million, while GP margin improved from 25.19% to 35.38%. The improvement in GP and GP margin was attributed mainly to hot melt adhesives for mattresses, which was also reflected in the increase in revenue of the said product.

The GP margin of hot melt adhesives for mattresses increased from 24.82% for the FYE 2015 to 36.05% for the FYE 2016 due mainly to the increase of 9.68% in average selling price, coupled with the decrease of 6.70% in average cost of sales for the FYE 2016. The increase in the average selling price was a result of the depreciation of the RM relative to the USD, whilst the decrease in average cost of sales was due mainly to the reduction in the global market price of EVA polymer.

(c) **Development and Manufacture of Sealants and Provision of Supporting Products and Services**

We started to manufacture our own sealants for three months during the FYE 2016 and our GP was RM7,290 while GP margin was 5.47% for the year. Cost of sales was RM120,439, and average cost of sales was RM6.79 per tonne.

Our GP from providing supporting products and services for the FYE 2016 increased by RM0.06 million or 11.90% to RM0.54 million. GP margin increased slightly, from 17.91% to 18.05% for the FYE 2016. The main contributor to GP and GP growth was our OEM industrial adhesives and sealants, where GP grew due to higher sales volume of the product. The GP margin from OEM industrial adhesives and sealants also improved marginally, from 17.01% to 18.34% for the FYE 2016 due to the depreciation of RM relative to the USD as most of the sales were generated from customers in Vietnam.

FYE 2017 compared to FYE 2016

For the FYE 2017, our GP increased by RM2.17 million or 8.96% to RM26.33 million. Manufacturing water-based adhesives was the largest contributor to the increase in our GP during the FYE 2017. Our overall GP margin was fairly constant, improving only slightly from 31.85% to 31.97% for the year. The improvement in GP and GP margin was mainly contributed by the development and manufacture of water-based adhesives.

(a) **Development and Manufacture of Water-based Adhesives**

For the FYE 2017, our GP increased by RM1.70 million or 9.58% to RM19.43 million. GP margin improved from 33.36% to 34.52%. Growth in GP and GP margin were contributed mainly from woodworking, as well as paper and packaging applications.

- Our GP **for woodworking applications** increased by RM1.19 million, or 7.13%, to RM17.86 million for the FYE 2017, whilst our GP margin from this segment improved slightly, from 34.82% to 35.29%. This was due mainly to the increased sales volume of the said product to a customer in China. The depreciation of the RM relative to the USD also contributed to the higher GP and GP margin.

  GP margin from our Vietnam operations had also improved from 33.57% to 42.61% for the FYE 2017, attributed mainly to the decrease of 14.81% in average cost of sales in USD per tonne as a result of the reduction in the global market price of EVA emulsion.

- GP for the FYE 2017 **for paper and packaging applications** increased by RM0.40 million or 54.04% to RM1.14 million. Our GP margin had also improved from 18.29% to 26.83% for the FYE 2017. GP margin from the paper and carton packaging from our Malaysia operations improved from 12.00% to 19.34% for the FYE 2017 due mainly to the increase of 25.54% in average selling price per tonne. The increase in average selling price per tonne was a result of the introduction of a new higher priced water-based adhesives for paper lamination application.

  GP margin from our Vietnam operations also improved from 11.95% to 22.84%, which was attributed mainly to the increase of average selling price in USD per tonne, coupled with the decrease of average cost of sales in USD per tonne. This was due mainly to the introduction of a new higher priced water-based adhesives for bottle labeling application, whereas the decrease in average cost of sales in USD per tonne was a result of the reduction in the global market price of EVA emulsion and plasticizer.

- The GP **for other applications** increased by RM0.11 million in the FYE 2017. The GP margin also increased from 25.90% to 29.82% for this year. This was due mainly to the increase in GP and GP margin for cigarettes as a result of higher sales volume to new customers and increase in average selling price by 4.82% for the year, coupled with the decrease in average cost of sales by 7.36%. The increase in average selling price was due to the increased sales of this segment to customers in Vietnam, Cambodia and UAE, whereas the decrease in average cost of sales was due to the decrease in the price of VAE polymer.

(b) Development and Manufacture of Hot Melt Adhesives

For the FYE 2017, the higher GP of RM0.26 million or 4.45% to RM6.16 million in FYE 2017 was attributed mainly to the higher sales for our woodworking application. The increase was partially offset by the decrease in the GP from our paper and packaging applications, as well as for other applications of RM0.09 million. Our overall GP margin from hot melt adhesives decreased from 30.04% for the FYE 2016 to 28.25% for the FYE 2017. This was attributed mainly to the lower GP margin from the paper and packaging applications segment, which is twice the size of the woodworking application segment.

- GP **for paper and packaging applications** declined by RM0.05 million or 1.26% to RM3.91 million in the FYE 2017. GP margin declined from 28.10% to 25.26% for the year. This was due mainly to the decline in the GP from EVA type of hot melt adhesives from our Vietnam operations as a result of the decrease of 4.30% in average selling price in USD per tonne, which was mainly in response to the stiff market competition in Vietnam.

  As such, the GP margin from EVA types of hot melt adhesives also declined accordingly. This was further amplified with the increase of 12.75% in average cost of sales in USD per tonne due to the increase in global market price of polyolefin polymer.

- GP **for woodworking applications** increased by RM0.35 million or 22.22% to RM1.94 million, while the GP margin improved from 34.89% to 35.29% for the FYE 2017. The higher GP is in line with the increase in sales of the said products as there was a general increase of 1.39% in average selling price in USD per tonne due to effective pricing strategy adopted in securing new customers for the year.

The improvement in GP margin was contributed mainly by our Vietnam operations as the margins increased from 43.00% to 58.58% for the year, coupled with the decrease of 26.22% in average cost of sales in USD per tonne due mainly to the reduction in the global market price of EVA polymer.

- For the FYE 2017, the GP **for other applications** declined by RM0.04 million or 11.56% to RM0.31 million due mainly to the lower GP for the mattress application of RM0.03 million or 7.85% as a result of lower sales volume of the said product due to our pricing strategy of higher selling price of 13.50% for this application.

  Despite the lower sales volume and the corresponding lower GP, our GP margin improved from 35.38% to 37.55% for the FYE 2017.

(c) Development and Manufacture of Sealants and Provision of Supporting Products and Services

The GP has increased from RM7,290 to RM22,000 for the FYE 2017. GP margin also improved, from 5.47% to 8.80% for the year. This was due mainly to products sold to one customer, who purchased the product packaged in large drums, which has lower packaging cost per unit.

For the FYE 2017, our GP from provision of supporting products and services increased by RM0.19 million or 35.63% to RM0.73 million, while GP margin declined slightly from 18.05% to 17.99%. The main contributor to GP and GP growth was our OEM industrial adhesives and sealants, where the sales volume to repeat customers increased for the FYE 2017. However, the GP margin from OEM industrial adhesives and sealants declined from 18.34% to 17.81% due mainly to the decrease in average selling price to attract more sales from repeat customers.

FYE 2018 compared to FYE 2017

Our GP decreased by RM0.92 million or 3.50% to RM25.41 million for the FYE 2018. The decrease was due to decline in the GP of water-based adhesives, which had contributed to the overall decline in our GP margin.

(a) Development and Manufacture of Water-based Adhesives

Our GP declined by RM2.40 million or 12.36% to RM17.03 million due to the woodworking and other applications. GP margin declined from 34.52% to 29.79% due to woodworking, paper and packaging, and other applications.

- Despite the increase in the total quantity sold **for woodworking applications** of 171 tonnes, our GP declined by RM2.39 million or 13.37% to RM15.47 million, while GP margin declined 4.96% to 30.33% for the FYE 2018. The decline was contributed mainly by our low average selling price as we did not pass on the entire increase in the average cost of sales of 6.59% due to the increased global market price of hardeners and PVAc polymer, to our customers.

- GP **for paper and packaging applications** increased by RM0.12 million or 10.76% to RM1.27 million contributed mainly by the increase in GP from our Vietnam operations as a result of increased quantity sold of 72 tonnes. However, GP margin declined slightly from 26.83% to 25.44% due mainly to the increase in price of raw materials such as EVA emulsion, purchased from a supplier in Malaysia.

- GP **for other applications** decreased by RM0.14 million or 32.00% due mainly to the loss of five repeat customers in UAE, Oman and Vietnam for cigarette applications. GP margin decreased 5.10% to 24.72% due primarily to cigarette and automotive applications, contributed mainly by the decrease in average selling price, and increase in the price of raw materials such as acrylic that we obtained from a supplier in Malaysia.

(b) **Development and Manufacture of Hot Melt Adhesives**

GP from hot melt adhesives increased by RM0.91 million or 14.78% to RM7.07 million for the FYE 2018, while GP margin improved from 28.25% to 31.49%. The improvement was contributed by paper and packaging, and woodworking applications.

- GP from **paper and packaging applications** increased by RM0.62 million, or 15.82% to RM4.53 million for the FYE 2018. This improvement was contributed mainly by the higher GP contribution of EVA type of hot melt adhesives and *HYDROMELT* adhesives as a result of increased in sales volume of 65 tonnes to 394 tonnes.

  The increase in GP margin from 25.26% to 28.60% for the FYE 2018 was contributed by the decrease of 10.69% in the average cost of sales per tonne due to the cheaper price for raw materials such as tackifier, which we purchased from a supplier in Singapore.

- GP from **woodworking applications** increased by RM0.28 million or 14.51% to RM2.22 million, while GP margin improved from 35.29% to 38.13%. The improvement in GP was due mainly to the increased quantity sold of high and medium operating temperature types of hot melt adhesives of 26 tonnes and 31 tonnes, respectively.

  The increase in GP margin was contributed by the decrease of 7.37% in the average cost of sales per tonne due to the cheaper price of EVA polymer purchased from a supplier in Singapore.

- Our GP from **other applications** increased slightly by RM0.01 million or 3.27% to RM0.32 million, while GP margin improved from 37.55% to 41.04% for the FYE 2018. The improvement in GP margin was contributed mainly by mattress applications, where the average cost of sales per tonne decreased by 17.23% due to the reduction in the global market price of EVA polymer.

(c) **Development and Manufacture of Sealants and Provision of Supporting Products and Services**

Our GP from sealants increased by RM0.14 million or 613.64% to RM0.16 million. However, GP margin declined slightly from 8.80% to 8.14%. The increase in GP was in line with the improved revenue as a result of the increase in quantity sold of 543 tonnes.

For the FYE 2018, our GP from the provision of supporting products and services increased by RM0.44 million or 59.83% to RM1.16 million, while GP margin improved from 17.99% to 21.95%. The increase in both GP and GP margin was contributed mainly by the supply of hardeners to a customer in China and Malaysia.

11.2.3.2 GP and GP Margin Segmented by Geographical Market

The tables below present our GP and GP margin by geographical markets:

	FYE 2015			FYE 2016			FYE 2017			FYE 2018		
GP	RM'000	%	GP margin %	RM'000	%	GP margin %	RM'000	%	GP margin %	RM'000	%	GP margin %
Malaysia	**3,756**	**20.03**	**27.45**	**3,684**	**15.25**	**26.44**	**4,035**	**15.32**	**26.48**	**4,107**	**16.16**	**23.23**
Foreign Markets	**14,999**	**79.97**	**30.03**	**20,480**	**84.75**	**33.07**	**22,295**	**84.68**	**33.21**	**21,302**	**83.84**	**30.82**
Vietnam	*11,135*	*59.37*	*30.78*	*13,934*	*57.66*	*32.15*	*15,372*	*58.38*	*33.04*	*14,382*	*56.60*	*30.72*
Indonesia	*1,595*	*8.50*	*24.35*	*3,394*	*14.05*	*34.15*	*3,025*	*11.49*	*31.86*	*2,883*	*11.35*	*28.47*
China	*1,398*	*7.45*	*32.88*	*1,387*	*5.74*	*36.06*	*2,247*	*8.53*	*40.54*	*2,371*	*9.33*	*39.58*
Others	[(a)]*871*	*4.65*	*29.39*	[(b)]*1,765*	*7.30*	*36.76*	[(c)]*1,651*	*6.28*	*29.66*	[(d)]*1,666*	*6.56*	*26.88*
Total	**18,755**	**100.00**	**29.48**	**24,164**	**100.00**	**31.85**	**26,330**	**100.00**	**31.97**	**25,409**	**100.00**	**29.27**

Notes:

(a) Comprised of Thailand, Cambodia, Liberia, Brunei, Singapore, UAE, Sri Lanka, Hong Kong, Laos, Myanmar and the Philippines.

(b) Comprised of Thailand, Cambodia, Liberia, Brunei, Singapore, UAE, Sri Lanka, Hong Kong, Myanmar and Laos.

(c) Comprised of Thailand, Cambodia, Liberia, Oman, Brunei, Singapore, UAE, Sri Lanka, and Hong Kong.

(d) Comprised of Thailand, Cambodia, Brunei, Liberia, Singapore, Sri Lanka, Maldives, Hong Kong and Uganda.

FYE 2016 compared to FYE 2015

GP from the **Malaysia** market has decreased marginally by RM0.07 million to RM3.68 million for the FYE 2016 due mainly to a decrease in sales from a repeat customer.

There was also a slight decline in our GP margin by 1% due mainly to the increased cost of imported raw materials for SBR latex, as a result of the depreciation on the RM relative to the USD. SBR latex is used as a base material for high water-resistant type of water-based adhesives for woodworking.

GP from the **foreign markets** has increased by RM5.48 million or 36.55% to RM20.48 million for the FYE 2016 due mainly to contribution from Vietnam and improved sales from Indonesia for the water-based adhesives for woodworking. GP margin has also improved by 3% to 33.07% during this period.

This was attributed mainly by the following:

- The increase in GP from the **Vietnam** market is attributable mainly to the impact of the depreciation of the RM relative to the USD:

Vietnam	FYE 2015	FYE 2016	Variance (FYE 2015 to FYE 2016)	
GP (RM'000)	11,135	13,934	2,799	25.14%
GP (USD'000) [(a)]	3,217	3,372	155	4.82%
Exchange rate to USD1	*RM3.4608*	*RM4.1322*	*RM0.6714*	*19.40%*

Note:

(a) Based on the average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM.

However, GP margin improved from 30.78% to 32.15% due mainly to increased sales volume of the higher margin products such as high water-resistant types of water-based adhesives for glass bottle labelling.

- GP from the **Indonesia** market increased significantly by RM1.80 million or 112.79% to RM3.39 million attributed mainly to an increase in our sales of water-based adhesives for woodworking to a repeat customer by 474 tonnes.

  GP margin improved from 24.35% to 34.15% contributed mainly by the increase in quantity sold of our higher GP margin product, which is water-based adhesives. In addition, the depreciation of the RM relative to the USD during the financial year was also a contributory factor as the sales were transacted in USD but our cost of operations was denominated in RM.

- GP from the **China** market decreased marginally by RM0.01 million to RM1.39 million due mainly to the decrease in sales of water-based adhesives for woodworking to a repeat customer.

  However, GP margin improved from 32.88% to 36.06% due mainly to the depreciation of the RM relative to the USD during the financial year as the sales were transacted in USD but our cost of operations was denominated in RM.

- GP and GP margin from **other countries** had increased by RM0.90 million to RM1.77 million and from 29.39% to 36.79% respectively, attributed mainly by an improvement in sales of higher margin water-based adhesives for woodworking application to Liberia, Thailand and Cambodia.

FYE 2017 compared to FYE 2016

GP from the **Malaysia** market has increased by RM0.35 million to RM4.04 million due mainly to the increase in both sales of water-based and hot melt adhesives to 67 new customers. Despite this, GP margin remained virtually the same, improving slightly from 26.44% to 26.48%. This was part of our strategy to capture new customers and though our sales volume had increased, margins were maintained.

GP from the **foreign markets** has increased by RM1.82 million or 8.86% to RM22.30 million due mainly to improved sales from Vietnam and China for water-based adhesives used for woodworking. GP margin improved marginally from 33.07% to 33.21% during this period.

This was attributed mainly by the following:

- The increase in GP from the **Vietnam** market is attributable mainly to the impact of the depreciation of the RM relative to the USD:

Vietnam	FYE 2016	FYE 2017	Variance (FYE 2016 to FYE 2017)	
GP (RM'000)	13,934	15,372	1,438	10.32%
GP (USD'000) [(a)]	3,372	3,585	213	6.32%
Exchange rate to USD1	*RM4.1322*	*RM4.2881*	*RM0.1559*	*3.77%*

Note:

(a) Based on the average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM.

GP margin improved from 32.15% to 33.04% due mainly to the lower average cost of sales per tonne as a result of the reduction in the global market prices of raw materials such as EVA emulsion, EVA polymer and plasticizer.

- GP from the **Indonesia** market decreased by RM0.37 million or 10.87% to RM3.03 million attributed mainly to lower sales of water-based adhesives for woodworking application to repeat customers by 68 tonnes.

  Our GP margin had also decreased from 34.15% to 31.86% due mainly to the increase in average cost of sales of imported PVAc polymer.

- GP from the **China** market increased by RM0.86 million or 62.00% to RM2.25 million attributed mainly to increased sales of water-based adhesives for woodworking to a repeat customer.

  Similarly, GP margin from the China market also improved from 36.06% to 40.54% due mainly to lower prices of EVA emulsion. Despite the higher sales order by the customer, the selling price was relatively maintained due to the depreciation of the RM relative to the USD, which resulted favourably to us.

- GP from **other countries** decreased by RM0.11 million to RM1.65 million attributed mainly to the decrease in GP from Liberia by RM0.54 million or 83.00% to RM0.11 million for the FYE 2017 as a result of lower sales of water-based adhesives for woodworking to a customer in Liberia during the year.

  However, the decrease in GP from Liberia was partially mitigated by improvement in GP from Cambodia of RM0.40 million to RM0.64 million due mainly to the increase in revenue from sales of cigarette application segment.

Our GP margin from other countries decreased from 36.76% to 29.66% for the FYE 2017 due mainly to the decrease of higher margin products sold to Liberia during the year.

FYE 2018 compared to FYE 2017

GP from the **Malaysia** market increased by RM0.07 million to RM4.11 million, contributed mainly by the increased sales of water-based adhesives for woodworking applications to three repeat customers. Higher sales of sealants of RM1.68 million secured from 19 repeat customers involved in building and construction industry also contributed to the increased GP. Nonetheless, GP margin declined from 26.48% to 23.23% for the FYE 2018. This was due mainly to our low average selling price as we did not pass on the entire increase in the average cost of sales of 5.21% due to the increased global market price of hardeners and PVAc polymer, to our customers.

GP from the **foreign markets** decreased by RM0.99 million or 4.45% to RM21.30 million, despite the quantity of products sold to customers in foreign markets during the FYE 2018 remained relatively unchanged at 9,536 tonnes. Our GP margin from foreign markets also declined, from 33.21% to 30.82% for the FYE 2018.

This was attributed mainly by the following:

- The decrease in GP from the **Vietnam** market is attributable mainly to the appreciation of the RM relative to the USD:

Vietnam	FYE 2017	FYE 2018	Variance (FYE 2017 to FYE 2018)	
GP (RM'000)	15,372	14,382	(990)	(6.44%)
GP (USD'000) [(a)]	3,585	3,529	(56)	(1.56%)
Exchange rate to USD1	*RM4.2881*	*RM4.0758*	*(RM0.2123)*	*(4.95%)*

Note:

(a) Based on the average foreign currency exchange rates used in our Group's combined financial statements to convert values denominated in USD to RM.

GP margin decreased from 33.04% to 30.72% due mainly to the lower GP margin from water-based adhesives for woodworking applications, contributed mainly by our low average selling price as we did not pass on the increase in the average cost of sales of 6.44% due to the increased global market price of hardeners and PVAc polymer, to our customers.

- GP from the **Indonesia** market decreased by RM0.14 million or 4.69% to RM2.88 million, and GP margin decreased from 31.86% to 28.47% for the FYE 2018. While the quantity of products sold to the Indonesia market increased by 97 tonnes during the FYE 2018, our GP and GP margin for the market decreased as the average cost of sales increased by 5.02%, while our average selling price remained unchanged in response to the stiff market competition.

- GP from the **China** market increased by RM0.12 million or 5.52% to RM2.37 million attributed mainly to the supply of hardeners to a repeat customer. Our GP margin declined slightly, from 40.54% to 39.58% for the FYE 2018.

- GP from **other countries** for the FYE 2018 increased slightly by RM0.02 million to RM1.67 million, while GP margin decreased from 29.66% to 26.88% due mainly to the decrease of higher margin products sold to Liberia.

11.2.3.3 GP and GP Margin Segmented by Subsidiary Companies

Our total GP and GP margin by subsidiary company are provided below:

	FYE 2015			FYE 2016			FYE 2017			FYE 2018		
GP	RM'000	%	GP margin %	RM'000	%	GP margin %	RM'000	%	GP margin %	RM'000	%	GP margin %
Techbond[(a)]	-	-	-	-	-	-	-	-	-	-	-	-
Techbond Manufacturing	7,533	40.17	27.83	9,593	39.70	31.55	10,356	39.33	30.95	10,352	40.74	27.60
Techbond Vietnam	11,099	59.18	30.83	13,929	57.64	32.19	15,366	58.36	33.01	14,481	56.99	30.68
Techbond Sabah	123	0.65	21.85	642	2.66	29.37	608	2.31	25.84	576	2.27	27.26
Techbond International[(b)]	-	-	-	-	-	-	-	-	-	-	-	-
Techbond Mfg Vietnam[(c)]	-	-	-	-	-	-	-	-	-	-	-	-
Total	**18,755**	**100.00**	**29.48**	**24,164**	**100.00**	**31.85**	**26,330**	**100.00**	**31.97**	**25,409**	**100.00**	**29.27**

Notes:

(a) Techbond was incorporated on 8 June 2016 and has been dormant since its incorporation.

(b) Techbond International was incorporated on 30 March 2016 and has been dormant since its incorporation.

(c) Techbond Mfg Vietnam was incorporated on 14 October 2016 and has been dormant since its incorporation.

Techbond Manufacturing's GP was on an increasing trend and grew by 37.42% or RM2.82 million between the FYE 2015 and the FYE 2018. The increase in GP in the FYE 2016 was contributed mainly by the increase in GP of water-based adhesives for woodworking, as well as hot melt adhesives for paper and packaging applications segments. This was contributed mainly by increased sales to Indonesia that was denominated in USD.

For the FYE 2017, the increase in GP was contributed mainly by the increase in GP of water-based adhesives for woodworking, as well as the hot melt adhesives for paper and packaging applications segments. This was contributed mainly by increased sales to China that was denominated in USD

Techbond Manufacturing's GP margin improved from 27.83% in the FYE 2015 to 31.55% in the FYE 2016. The improvement in GP margin was attributed mainly to an increase of 13.64% in the average selling price of high water-resistant types of water-based adhesives for woodworking, as well as an increase of 11.86% in the average selling price of hot melt adhesives for paper and packaging.

The GP margin declined slightly from 31.55% in FYE 2016 to 30.95% in FYE 2017 due mainly to the decrease in average selling price of water-based adhesives for woodworking to attract some new as well as repeat customers in Malaysia and China. This was reflected in the higher quantity sold to customers in Malaysia of 260 tonnes and China of 354 tonnes, respectively.

GP margin for FYE 2018 declined from 30.95% to 27.60%, contributed mainly by our low average selling price as we did not pass on the increase in the average cost of sales of 6.93% due to the increased global market price of hardeners and PVAc polymer, to our customers.

Techbond Vietnam's GP increased by RM2.83 million or 25.50% for the FYE 2016, and continued to increase by RM1.44 million or 10.32% for the FYE 2017. The increase in GP was in line with the increase in revenue of RM7.27 million or 20.20% for the FYE 2016, and RM3.28 million or 7.57% for the FYE 2017. Similar to revenue, the growth in GP was attributed mainly to the depreciation of the RM relative to the USD. For the FYE 2018, GP declined by RM0.89 million or 5.76% to RM14.48 million due mainly to the appreciation of the RM relative to the USD.

Techbond Vietnam's GP margin had improved from 30.83% for the FYE 2015 to 32.19% for the FYE 2016, and continued to improve to 33.01% for the FYE 2017. The improvement in GP margin in the FYE 2016 was attributed mainly to the respective increase of 1.83% in the average selling price and a decrease of 5.61% in average cost of sales in USD per tonne, which resulted in the higher GP margin of our water-based adhesives for woodworking as well as water-based adhesives for paper and packaging, specifically for glass bottle labelling.

The slight improvement in GP margin from 32.19% in the FYE 2016 to 33.01% in the FYE 2017 was attributed mainly to higher GP margin from our high water-resistant water-based adhesives for woodworking as well as water-based adhesives for paper and packaging, specifically for glass bottle labelling sold to customers locally in Vietnam. However, GP margin declined from 33.01% to 30.68% for the FYE 2018, contributed mainly by our low average selling price as we did not pass on the entire increase in the average cost of sales of 6.44% due to the increased global market price of hardeners and PVAc polymer, to our customers.

Techbond Sabah's GP increased significantly by RM0.52 million or 421.95% in the FYE 2016 due to the full year recognition of sales revenue as compared to only three months of sales revenue recorded in the FYE 2015. For the FYE 2017, Techbond Sabah's GP decreased by RM0.03 million, or 5.30% due mainly to the decrease in our sales from water-based adhesives for woodworking to Sabah and Brunei. The GP for the FYE 2018 also declined by RM0.03 million or 5.26% to RM0.58 million due mainly to the loss of a customer that had discontinued its manufacturing operations in Sabah. The aforesaid customer contributed RM0.14 million GP of water-based woodworking applications in the previous year.

Techbond Sabah's GP margin increased from 21.85% in the FYE 2015 to 29.37% in the FYE 2016. For the FYE 2017, Techbond Sabah's GP margin declined from 29.37% in the FYE 2016 to 25.84% in the FYE 2017 due to lower sales of high margin products such as water-based adhesives for woodworking. However, GP margin improved from 25.84% to 27.26% for the FYE 2018 due mainly to the higher sales of high margin products such as water-based adhesives for woodworking to 22 repeat customers and four new customers.

Kindly refer to Section 11.2.3.1 of this Prospectus for further details.

11.2.4 Other Income

The table below provides a breakdown of our other income:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Other income	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Gain on foreign currency exchange	888	47.16	808	79.06	922	78.07	75	10.49
Reversal of provision for doubtful debts	752	39.94	-	-	-	-	-	-
Interest income	46	2.44	72	7.05	113	9.57	418	58.46
Amortisation of deferred income[(a)]	45	2.39	45	4.40	45	3.81	45	6.29
Others[(b)]	152	8.07	97	9.49	101	8.55	177	24.76
Total	**1,883**	**100.00**	**1,022**	**100.00**	**1,181**	**100.00**	**715**	**100.00**

Notes:

(a) This is a grant received from SME Corporation Malaysia for the purchase of plant and machinery and is recognised as income over the estimated useful life of the plant and machinery concerned at the rate of 15% per annum.

(b) Include amongst others, bad debts recovered, gain on disposal of PPE and scrap sales.

FYE 2016 compared to FYE 2015

Other income decreased by 45.72% or RM0.86 million for the FYE 2016 due mainly to the reversal of provision for doubtful debts of RM0.75 million in the previous FYE 2015. This amount was written off as bad debts in the FYE 2015.

FYE 2017 compared to FYE 2016

Other income increased by 15.56% or RM0.16 million for the FYE 2017 due mainly to the increase in the unrealised gain on foreign currency exchange of RM0.24 million. However, it was partially offset by the decrease in the realised gain on foreign currency exchange of RM0.13 million. Higher interest income was due to increase in fixed deposits held by Techbond Vietnam, from RM1.50 million for the FYE 2016 to RM6.36 million for the FYE 2017.

FYE 2018 compared to FYE 2017

Other income decreased by 39.46% or RM0.47 million, due mainly to the decrease in both realised and unrealised gain on foreign currency exchange of RM0.85 million. This was partially mitigated by the increased interest income of RM0.31 million from the increase in fixed deposits held by Techbond Vietnam, from RM6.36 million for the FYE 2017 to RM10.84 million for the FYE 2018. Others increased by RM0.08 million, due mainly to an increase in scrap sales of RM0.05 million.

11.2.5 Operating Expenses

The table below provides a breakdown of our operating expenses:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Operating expenses	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Administrative	**4,999**	**63.08**	**6,267**	**65.21**	**5,800**	**68.42**	**6,399**	**70.96**
Staff costs[(a)]	*3,265*	*41.20*	*3,611*	*37.58*	*3,643*	*42.98*	*4,301*	*47.70*
Depreciation	*442*	*5.58*	*417*	*4.34*	*285*	*3.36*	*312*	*3.46*
Legal and professional fees[(b)]	*47*	*0.59*	*145*	*1.51*	*325*	*3.83*	*86*	*0.95*
Others	*1,245*	*15.71*	*2,094*	*21.78*	*1,547*	*18.25*	*1,700*	*18.85*
Selling and distribution[(c)]	**1,839**	**23.21**	**2,008**	**20.89**	**2,209**	**26.06**	**1,859**	**20.62**
Other expenses	**1,087**	**13.71**	**1,336**	**13.90**	**468**	**5.52**	**759**	**8.42**
Realised and unrealised loss on foreign currency exchange	*331*	*4.18*	*600*	*6.24*	*330*	*3.89*	677	7.51
Bad debts written off	*752*	*9.49*	*589*	*6.13*	*37*	*0.44*	-	-
Provision of doubtful debt	-	-	*108*	*1.12*	-	-	-	-
Others	*4*	*0.05*	*39*	*0.41*	*101*	*1.19*	82	0.91
Total	**7,925**	**100.00**	**9,611**	**100.00**	**8,477**	**100.00**	**9,017**	**100.00**

Notes:

(a) Comprised of salaries and allowances, directors' remuneration and Employees' Provident Fund contributions.

(b) Include amongst others, fees paid to certification bodies to carry out independent testing to obtain product certification.

(c) Comprised of carriage outwards, sales and marketing expenses, transportation expenses, motor vehicle expenses, and travelling and accommodations.

FYE 2016 compared to FYE 2015

Our total operating expenses increased by 21.26% or RM1.69 million for the FYE 2016 due mainly to the higher administrative expenses of RM1.27 million.

On 9 June 2015, Techbond Manufacturing had entered into a sale and purchase agreement with LST Realty Sdn Bhd (a property investment company of the Promoters) as amended on 22 June 2015 for the disposal of the Shah Alam Factory I. The parties had on 5 September 2016 entered into a rectification agreement to restore the parties to the prior position as though the sale and purchase agreements had not been entered into ("**Rectification Agreement**"). The Shah Alam Factory I has been re-registered under the name of Techbond Manufacturing on 9 December 2016.

The higher administrative expenses was attributed mainly to a stamp duty of RM0.62 million incurred in respect of the Rectification Agreement and an increase in salaries and allowances of RM0.35 million for the FYE 2016. The higher selling and distribution expenses of RM0.17 million or 9.19% in the FYE 2016, was due mainly to the increase in sales and marketing expenses of RM0.16 million. Other expenses increased by RM0.25 million or 22.91% in the FYE 2016, due mainly to a provision for doubtful debts of RM0.11 million.

FYE 2017 compared to FYE 2016

Our total operating expenses decreased by 11.79% or RM1.13 million for the FYE 2017 due mainly to the decrease in other expenses of RM0.87 million as result of a lower bad debts written off of RM0.55 million.

Our administrative expenses for the FYE 2017 was RM0.47 million lower compared to FYE 2016 due mainly to the non-recurring stamp duty expenses incurred in the FYE 2016. Our selling and distribution expenses increased by RM0.20 million or 10.01%, which was attributed mainly to the increase sales and marketing expenses, transportation expenses, travelling and accommodation expenses.

FYE 2018 compared to FYE 2017

Our total operating expenses increased by RM0.54 million or 6.37%, due mainly to the higher administrative expenses as a result of the increased staff costs arising from the Directors' fees and the recruitment of two personnel under the managerial category. This was partially offset by the lower legal and professional fees incurred for the FYE 2018. The lower legal and professional fees was due mainly to the non-recurring fees of RM0.12 million paid in the FYE 2017 for tax advisory services.

11.2.6 Finance Costs

The table below provides a breakdown of our finance costs:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
Finance costs	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Term loan interest	72	99.84	58	100.00	37	100.00	9	100.00
Hire purchase interest	#	0.16	-	-	-	-	-	-
Total	**72**	**100.00**	**58**	**100.00**	**37**	**100.00**	**9**	**100.00**

Note:

Negligible amount of approximately RM1,000.

Our finance cost comprised mainly of interest charged on term loans to finance the purchase of machinery and equipment installed at our Shah Alam Factory Complex, and as partial financing for the construction of our Shah Alam Factory I. The term loans have been fully paid off, and we do not have any outstanding borrowings as at the LPD.

11.2.7 PBT, PAT and Effective Tax Rate

The table below sets forth our PBT, PAT and effective tax rate:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Total PBT (RM'000)	**12,641**	**15,517**	**18,997**	**17,099**
PBT margin (%)	**19.87**	**20.45**	**23.06**	**19.70**
Total taxation[(a)] (RM'000)	**3,162**	**3,829**	**4,444**	**3,679**
Effective tax rate				
- *Group (%)*	*25.01*	*24.68*	*23.39*	*21.52*
- *Malaysia operations (%)*	*28.39*	*26.39*	*24.35*	*23.98*
- *Vietnam operations (%)*	*22.25*	*22.75*	*22.33*	*20.43*
Statutory tax rate				
- *Malaysia (%)*	*25.00*	*24.00*	*24.00*	*24.00*
- *Vietnam (%)*	*22.00*	*[(b)]22.00 and 20.0*	*20.00*	*20.00*
Total PAT (RM'000)	**9,479**	**11,688**	**14,553**	**13,420**
PAT margin (%)	**14.90**	**15.41**	**17.67**	**15.46**

Notes:

(a) We operate in a multi-jurisdictional tax environment and corporate tax rates of entities within our Group outside Malaysia for past four financial years under review. The following table sets out the details of our tax expenses for the past four financial years:

	FYE 2015	FYE 2016	FYE2017	FYE 2018
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax	**2,980**	**3,911**	**4,347**	**3,604**
Malaysia operations	1,362	2,186	2,353	1,655
Vietnam operation	1,618	1,725	1,994	1,949
Deferred tax (Malaysia operations)	**182**	**(82)**	**97**	**75**
	3,162	**3,829**	**4,444**	**3,679**

(b) The statutory tax rate in Vietnam was 22.00% from 1 July 2015 to 31 December 2015, and 20.00% from 1 January 2016 and thereafter.

FYE 2016 compared to FYE 2015

For the FYE 2016, the increase in our PBT and PBT margin was in line with the increase in our GP and GP margin. This contributed mainly by our water-based adhesives for woodworking and hot melt adhesives for paper and packaging. For the FYE 2016, our PAT and PAT margin also improved from 14.90% for the FYE 2015 to 15.41% for the FYE 2016.

Our Malaysia operations recorded a higher effective tax rate as compared to the statutory tax rate in Malaysia for the financial years under review. The higher effective tax rate for the FYE 2016 was attributed mainly to non-allowable expenses incurred during the financial year, including stamp duty expenses amounting to RM0.62 million for the rectification agreement.

There was a slightly higher effective tax rate for the FYE 2016 for our Vietnam operations attributed mainly to non-deductible expenses incurred of RM77,045, such as certain sales and marketing expenses, expenses related to food and beverage, and unrealised foreign exchange gains and losses.

FYE 2017 compared to FYE 2016

For the FYE 2017, our PBT and PBT margin continue to increase, which was in tandem with our GP and GP margin improvements during the FYE 2017, contributed mainly by our water-based adhesives for woodworking. Similarly, our PAT increased by RM2.87 million or 24.51% to RM14.55 million for the FYE 2017, and PAT margin improved from 15.41% for the FYE 2016 to 17.67% for the FYE 2017.

The higher effective tax rate for our Malaysia operations was attributed mainly to provision of deferred tax of approximately RM97,000, under provision of prior year taxation of approximately RM28,000, and non-allowable expenses incurred such as professional fees of RM0.13 million.

The higher effective tax rate for our Vietnam operations was attributed mainly to non-allowable expenses incurred of RM79,493, such as non-deductible sales and marketing expenses, expenses related to food and beverage, and unrealised foreign exchange gains and losses.

FYE 2018 compared to FYE 2017

Our PBT and PBT margin for the FYE 2018 declined by RM1.90 million and 3.36%, respectively due mainly to the decline in the GP and GP margin of our water-based adhesives for the said financial year. This had affected our PAT and PAT margin with a decline of RM1.13 million and 2.21%, respectively.

The lower effective tax rate for our Malaysia operations was attributed mainly to over-provision of prior year taxation amounting to approximately RM0.16 million.

The higher effective tax rate for our Vietnam operations was attributed mainly to non-allowable expenses incurred, such as interest expense amounting to RM0.12 million.

We will be subject to withholding tax for fees paid on product certification carried out overseas. As at the LPD, our Group does not have any outstanding or provision of withholding tax.

11.3 Significant Factors Affecting Our Operations and Financial Performance

Our business operations and financial conditions have been and will continue to be affected by factors including, but not limited to, the following:

(i) Foreign Currency Exchange Rate Fluctuations

For the FYE 2018, more than 65.00% of our revenue and purchases were in denominated foreign currencies. In this respect, our business is subjected to risks relating to any unfavourable foreign currency exchange rate fluctuations which may materially affect our business operations and financial performance.

The breakdown of our revenue and purchases transacted in RM and other currencies for the FYE 2018 is summarised in the following table:

	Revenue		Purchases	
Currency	**RM'000**	**%**	**RM'000**	**%**
VND	46,661	53.75	3,601	6.96
USD	22,317	25.71	32,121	62.13
RM	17,833	20.54	15,463	29.91
Euro	-	-	517	1.00
Total	**86,811**	**100.00**	**51,702**	**100.00**

We have some natural hedging with respect to the USD as we generate revenue and make purchases denominated in USD. We also maintain USD bank accounts in Malaysia and Vietnam for our business operations in these countries.

We have revenue denominated in VND as we receive payments from some of our customers in that currency, and we have payments denominated in VND from payments made to suppliers.

As such, any fluctuation in foreign currencies relative to the RM may result in foreign currency gains or losses by our Group.

We had a net gain on foreign currency exchange for the FYE 2015, FYE 2016 and FYE 2017. Although we incurred a net loss on foreign currency exchange for the FYE 2018, it was immaterial as it represents 3.52% of PBT for that financial year. Details of our foreign currency exchange gains and losses are as follows:

	FYE 2015	FYE 2016	FYE2017	FYE 2018
Gain on foreign currency exchange (RM'000)	888	808	922	75
Loss on foreign currency exchange (RM'000)	(331)	(600)	(330)	(677)
Net gain or loss on foreign currency exchange (RM'000)	557	208	592	(602)
PBT (RM'000)	12,641	15,517	18,997	17,099
Net gain or loss on foreign currency exchange as a percentage of PBT (%)	4.41	1.34	3.12	(3.52)

As at the LPD, we do not have any foreign currency forward hedging contracts.

(ii) Dependency on the Performance of the User-Industries

Our financial results are dependent on the development and growth of the main user-industries, which include amongst others, woodworking, paper and packaging, building and construction, and automotive industries.

We face the risk of dependency on the woodworking as well as paper and packaging industries as 65.46% and 23.99% of our total revenue for FYE 2018 were derived from these two industries respectively. As such, any downturn in the performance of user industries may have a material adverse effect on the business and financial performance of our Group.

(iii) Impact of increase in the prices of raw materials

Our overall GP and GP margin decreased by 3.50% and 2.70%, respectively for the FYE 2018 as compared to FYE 2017. The decrease in both GP and GP margin was due mainly to the increase in prices of our raw materials, i.e. base materials and additives, namely PVAc polymer and hardeners.

For the FYE 2018, our purchases of base materials and additives represented 88.38% and 6.36% of our total purchases, respectively. As these plastics and polymer based materials are globally traded, they are subject to price fluctuations or volatility. Therefore, any further increase in the prices of any base materials and additives will adversely affect our future profit and profit margins.

(iv) Inflation

There was no material impact of inflation on our Group's historical financial results for the financial years under review. Nevertheless, there can be no assurance that future inflation would not have an impact on our business operations and financial performance.

(v) Government / Economic / Fiscal / Monetary Policies

Our business is subject to risks relating to government economic, fiscal and monetary policies, as well as to risks relating to trade policies such as changes in import tariffs and related duties on industrial adhesives, and corporate taxes. Our business is also subject to Bank Negara Malaysia's Foreign Exchange Administration Rules that govern, among others, investment abroad and export of goods. Further details of the Bank Negara Malaysia's Foreign Exchange Administration Rules are set out in Section 7.1.4 of this Prospectus.

Any unfavourable changes in these government and trade policies may materially affect our operations in Malaysia, Vietnam and other foreign markets. Further details are set out in Section 7.1.8 of this Prospectus.

11.4 Liquidity and Capital Resources

11.4.1 Working Capital

Our business had been financed primarily by internal sources of funds. Internal sources of funds comprise shareholders' equity and cash generated from our business operations, while our external sources of funds consist mainly of banking facilities from financial institutions. These funds have mainly been used to finance our business operations and growth.

Based on our combined statements of financial position as at 30 June 2018, we have cash and cash equivalents of RM27.68 million, and we did not have any outstanding borrowings. As at 30 June 2018, our current ratio was 6.92 times. As at the LPD, we do not have any material unused sources of liquidity such as borrowings, hire purchase loans, trade facilities, revolving credit or other financial instruments.

Our Board is of the opinion that, after taking into consideration our current cash position and the proceeds expected to be raised from the Public Issue, we will have adequate working capital to meet our present and foreseeable requirements for period of at least 12 months from the date of this Prospectus.

11.4.2 Cash Flow

The following is a summary of our combined statements of cash flows for the FYE 2015, FYE 2016, FYE 2017 and FYE 2018. This should be read in conjunction with the Accountants' Report as set out in Section 12 of this Prospectus.

	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Net cash from operating activities	3,667	9,303	11,392	16,123
Net cash used in investing activities	(1,864)	(226)	(7,363)	(2,126)
Net cash used in financing activities	(1,712)	(6,291)	(601)	(3,783)
Net increase in cash and cash equivalents	91	2,786	3,428	10,214
Opening balance of cash and cash equivalents	5,628	8,791	13,140	18,624
Effect of foreign currency exchange differences	3,072	1,563	2,056	(1,162)
Cash and cash equivalent at end of financial year[(a)]	**8,791**	**13,140**	**18,624**	**27,676**

Note:

(a) The components of our cash and cash equivalents are set out below:

	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Cash and bank balances	6,617	11,637	12,263	16,841
Fixed deposits with licensed banks	2,174	1,503	6,361	10,835
Total	**8,791**	**13,140**	**18,624**	**27,676**

FYE 2015

Net cash from operating activities

Our Group recorded net cash from operating activities of RM3.67 million where cash receipts were from customers, offset by cash paid to suppliers and employees, and tax payments.

Cash receipts from customers amounted to RM60.34 million. Some of the major cash receipts were from the following customers:

(i) A total of RM26.92 million cash receipts from our Malaysia operations, of which:

- RM12.34 million from our distributors comprising RM6.55 million from a distributor in Indonesia, RM3.82 million from a distributor in China, RM1.60 million from two distributors in Thailand, RM0.24 million from a distributor in Cambodia, RM0.08 from a distributor in UAE, and the remaining RM0.06 million from a distributor in Vietnam; and

- remaining cash receipts of RM14.58 million were mainly from our end-customers. Most of the cash receipts for the FYE 2015 were relatively small in value individually, and we had cash receipts of less than RM0.50 million from over 400 end-customers. Examples of large cash receipts collected by our Malaysian operations from end-customers during the FYE 2015 included RM1.01 million from manufacturer of food and beverages, RM0.60 million from a printing company, and RM0.55 million from a manufacturer of packaging.

(ii) A total of RM33.42 million cash receipts from our Vietnam operations, of which:

- RM31.13 million were mainly from our end-customers including RM2.14 million and RM1.98 million from two of our top five major customers, namely Công Ty Cổ Phần Johnson Wood and Công Ty TNHH RK Resources, respectively; and

- remaining cash receipts of RM2.29 million were from our distributor in Vietnam.

For the FYE 2015, cash paid amounted to RM56.73 million were mainly from the following:

(i) payment to suppliers of RM39.29 million including RM22.87 million for our Malaysia operations and RM16.42 million for our Vietnam operations. These payments were mainly for the purchases of raw materials such as base adhesive materials and additives;

(ii) payment of staff salary of RM5.72 million including salaries and allowances, employees' contributions, directors' remuneration and bonus;

(iii) tax paid of RM2.93 million;

(iv) payment of other expenses of RM8.79 million for overhead such as utilities and operational expenses.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM1.86 million was attributed mainly to the purchase of PPE amounting to RM1.97 million, which include plant and machinery of RM1.08 million, office furniture and equipment of RM0.15 million, and motor vehicles of RM0.31 million. The plant and machinery that we purchased during the FYE 2015 included high speed mixers, platform and other equipment to set up our new sealant manufacturing lines at the Shah Alam Factory Complex, and new laboratory equipment. These purchases were partially offset by the proceeds received from the disposal of a motor vehicle amounting to RM0.11 million.

Net cash used in financing activities

Our Group's net cash used in financing activities of RM1.71 million was attributed mainly to the dividend paid of RM1.56 million and repayment of term loans of RM0.43 million. This was offset by the Malaysian Government grant amounting to RM0.30 million for purchase of laboratory equipment for R&D.

FYE 2016

Net cash from operating activities

Our Group recorded net cash from operating activities of RM9.30 million where cash receipts were from customers, offset by cash paid to suppliers and employees, and tax payments.

Cash receipts from customers amounted to RM75.99 million for the FYE 2016. Some of the major cash receipts were from the following customers:

(i) A total of RM33.26 million cash receipts from our Malaysia operations, of which:

- RM16.79 million from our distributors comprising RM10.00 million from a distributor in Indonesia, RM4.28 million from a distributor in China, RM1.88 million from two distributors in Thailand, RM0.60 million from a distributor in Cambodia, and RM0.03 million from a distributor in UAE; and
- remaining cash receipts of RM16.47 million were mainly from our end-customers, comprising mostly of collections that were individually less than RM0.60 million from over 400 end-customers. We also had relatively larger cash receipts from other customers, including RM1.14 million from manufacturer of food and beverages, RM0.80 million from a manufacturer of packaging, RM0.69 million from a printing company, RM0.65 million from a manufacturer of rubber and plastic products, and RM0.60 million from a manufacturer of packaging.

(ii) A total of RM42.73 million cash receipts from our Vietnam operations, of which:

- RM40.68 million were mainly from our end-customers in Vietnam including RM2.96 million and RM2.24 million from two of our top five major customers namely Công Ty Cổ Phần Johnson Wood and Công Ty TNHH RK Resources, respectively; and
- remaining cash receipts of RM2.05 million were from our distributor in Vietnam.

For the FYE 2016, cash paid amounted to RM66.69 million were mainly from the following:

(i) payment to suppliers of RM47.85 million including RM27.42 million for our Malaysia operations and RM20.43 million for our Vietnam operations. These payments were mainly for the purchases of raw materials such as base adhesive materials and additives;

(ii) payment of staff salary of RM6.28 million including salaries and allowances, employees' contributions, directors' remuneration and bonus;

(iii) tax paid of RM3.21 million; and

(iv) payment of other expenses of RM9.35 million for overhead such as utilities and operational expenses.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM0.23 million was attributed mainly to the purchase of PPE, comprising of plant and machinery of RM0.19 million, and office furniture and equipment of RM0.02 million. The plant and machinery that we purchased included a new inkjet printer, and a new gas chromatography and other laboratory equipment. We also purchased plant and machinery to replace existing equipment, such as inverters, a bag closer and blower system for a display chiller.

Net cash used in financing activities

Our Group's net cash used in financing activities of RM6.29 million was attributed to the dividend paid of RM5.85 million and repayment of term loans of RM0.44 million.

FYE 2017

Net cash from operating activities

Our Group recorded net cash from operating activities of RM11.39 million where cash receipts were from customers, offset by cash paid to suppliers and employees and tax payments.

Cash receipts from customers amounted to RM80.39 million for the FYE 2017. Some of the major cash receipts were from the following customers:

(i) A total of RM35.61 million cash receipts from our Malaysia operations, of which:

- RM18.19 million from our distributors comprising RM9.16 million from a distributor in Indonesia, RM5.54 million from a distributor in China, RM2.23 million from three distributors in Thailand, RM1.15 million from a distributor in Cambodia, RM0.09 million from a distributor in UAE, and RM0.02 million from a distributor in Oman; and

- remaining cash receipts of RM17.42 million were mainly from our end-customers, comprising mainly of cash receipts that were individually less than RM0.50 million from over 400 end-customers. Relatively larger cash receipts collected from end-customers included RM1.33 million from manufacturer of food and beverages, RM1.16 million from a manufacturer of beverages in Cambodia, RM0.60 million from a printing company, and RM0.55 million from a manufacturer of wood-based products.

(ii) A total of RM44.78 million cash receipts from our Vietnam operations, of which:

- RM42.61 million were mainly from our end-customers in Vietnam including RM2.33 million and RM2.06 million from two of our top five major customers namely namely Công Ty Cổ Phần Johnson Wood and Công Ty TNHH RK Resources, respectively; and

- cash receipts of RM2.09 million were from our distributor in Vietnam, and RM0.08 million from our distributor in Cambodia.

For the FYE 2017, cash paid amounted to RM69.00 million were mainly from the following:

(i) payment to suppliers of RM49.04 million including RM29.18 million for our Malaysia operations and RM19.86 million for our Vietnam operations. These payments were mainly for the purchases of raw materials such as base adhesive materials and additives;

(ii) payment of staff salary of RM6.66 million including salaries and allowances, employees' contributions, directors' remuneration and bonus;

(iii) tax paid of RM4.99 million; and

(iv) payment of other expenses of RM8.31 million for overhead such as utilities and operational expenses.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM7.36 million was attributed to the purchase of PPE amounting to RM7.38 million, which include the payment for the land use right to VSIP of RM6.85 million for the lease of a piece of leasehold land in Vietnam in relation to our VSIP2 Factory Complex, purchases of plant and machinery of RM0.14 million, office furniture and equipment of RM0.21 million, and motor vehicles of RM0.18 million. This was partially offset by RM0.02 million from the upliftment of fixed deposit. The plant and machinery that we purchased during FYE 2017 were all new equipment, including a glue spreader, compressor and laboratory equipment.

Net cash used in financing activities

Our Group's net cash used in financing activities of RM0.60 million was attributed to the dividend paid of RM2.14 million and repayment of term loans of RM0.46 million. The net cash used in investing activities was offset by the cash received of RM2.00 million from share issuance.

FYE 2018

Net cash from operating activities

Our Group recorded net cash from operating activities of RM16.12 million where cash receipts were from customers, offset by cash paid to suppliers, employees and tax payments.

Cash receipts from customers amounted to RM83.97 million. Some of the major cash receipts were as follows:

(i) A total of RM37.16 million cash receipts from our Malaysia operations, of which:

- RM17.21 million from our distributors, comprising RM9.19 million from a distributor in Indonesia, RM5.22 million from a distributor in China, RM2.49 million from two distributors in Thailand, RM0.31 million from a distributor in Cambodia; and

- remaining cash receipts of RM19.95 million were mainly from our end-customers, comprising mainly of cash receipts that were individually less than RM0.50 million from over 390 end-customers. Relatively larger cash receipts collected from end-customers included RM1.69 million from a manufacturer of beverages in Cambodia, RM1.29 million from a manufacturer of food and beverages, RM0.79 million from a manufacturer of wood-based products, and RM0.62 million from a printing company.

(ii) A total of RM46.81 million cash receipts from our Vietnam operations, of which:

- RM44.78 million were mainly from our end-customers in Vietnam, including RM2.25 million and RM1.57 million from two of our top seven customers, namely Công Ty Cổ Phần Johnson Wood and Công Ty TNHH RK Resources; and

- cash receipts of RM1.86 million were mainly from our distributor in Vietnam, and RM0.17 million from our distributor in Cambodia.

For the FYE 2018, cash paid amounted to RM67.85 million were mainly from the following:

(i) payment to suppliers of RM49.60 million, including RM30.04 million for our Malaysia operations and RM19.56 million for our Vietnam operations. These payments were mainly for the purchases of raw materials such as base adhesive materials and additives;

(ii) payment of staff salary of RM7.21 million including salaries and allowances, employees' contributions, directors' remuneration and bonus;

(iii) tax paid of RM4.41 million; and

(iv) payment of other expenses of RM6.63 million for overhead such as utilities and operational expenses.

Net cash used in investing activities

Our Group's net cash used in investing activities of RM2.13 million was attributed to the purchase of PPE, such as plant and machinery of RM1.29 million (of which RM1.20 million are categorised as capital work-in-progress in view that those plant and machinery are not completely assembled as at 30 June 2018), motor vehicles of RM0.78 million, and office furniture and equipment of RM0.06 million. The plant and machinery that we purchased during the FYE 2018 included a kneader to manufacture hot melt adhesives, a platform for a new hot melt adhesives manufacturing line, and laboratory equipment.

Net cash used in financing activities

Our Group's net cash used in financing activities of RM3.78 million was attributed to the dividend paid of RM3.10 million and repayment of borrowings of RM0.68 million.

11.4.3 Capitalisation and Indebtedness

The following table sets out our Group's capitalisation and indebtedness as at 30 September 2018, and after taking into account the Public Issue and the utilisation of proceeds from our Public Issue.

	As at 30 September 2018 RM'000	Pro Forma after the Public Issue and utilisation of proceeds RM'000
Cash and cash equivalents	26,761	35,792
Indebtedness		
Short-term / Long-term indebtedness	-	-
Total indebtedness	-	-
Capitalisation		
Total equity	89,571	124,240
Total capitalisation	89,571	124,240
Total capitalisation and indebtedness	89,571	124,240
Gearing ratio (times)[(a)]	N/A	N/A

Notes:

(a) Gearing ratio is calculated based on total borrowings divided by total equity.

N/A Not applicable as we did not have any indebtedness as at 30 September 2018.

11.4.4 Borrowings

We did not have any bank borrowings, trade facilities and hire purchase loans outstanding as at 30 June 2018.

All of our borrowings outstanding as at 30 June 2015, 30 June 2016 and 30 June 2017 were interest bearing with interest ranging from 2% to 4% per annum. During the past four FYEs and up to the LPD, we have not defaulted on any payment in relation to our borrowings, including principal and interest. As at the LPD, we do not have any outstanding borrowings. As at the LPD, neither us nor our Subsidiaries are in breach of any terms and conditions and covenants associated with credit arrangements or bank loans, which can materially affect our financial results, financial position or business operations, or the investments by holders of securities in our Company.

11.4.5 Treasury Policies and Objectives

We have been funding our operations through a combination of shareholder's equity, cash generated from our operations, and external sources of funds. Our cash and bank balances are denominated in RM, USD and VND, as summarised in the following table:

	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Cash and cash equivalents	**6,617**	**11,637**	**12,263**	**16,841**
Denominated in:				
USD	*3,058*	*5,568*	*7,562*	*8,703*
RM	*1,818*	*3,757*	*1,791*	*4,043*
VND	*1,741*	*2,312*	*2,910*	*4,087*
Others	-	-	-	*8*
Fixed deposits with licensed banks	**2,174**	**1,503**	**6,361**	**10,835**
Denominated in:				
VND	*2,174*	*1,503*	*6,361*	*10,835*
Total	8,791	13,140	18,624	27,676

Our external sources of funds consist of credit terms granted by our suppliers, and borrowings from financial institutions. The normal credit terms granted to us by our suppliers range from cash terms, to between 30 days and 90 days credit.

As at the LPD, we do not have any term loans, trade facilities and hire purchase loans outstanding.

11.4.6 Financial Instruments for Hedging Purposes

Financial instruments, from an accounting perspective, may include trade receivables, other receivables and deposits, fixed deposits with licensed banks, cash and bank balances, trade payables, other payables, and borrowings as shown on our combined statements of financial position. The aforesaid financial instruments are used in our Group's ordinary course of business. As at the LPD, our Group does not have any financial instruments for hedging purposes.

11.4.7 Material Litigation / Arbitration, Contingent Liabilities and Material Commitment for Capital Expenditure

(i) Material Litigation / Arbitration

Save as disclosed in Section 14.5 of this Prospectus, our Group is not engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of our Group in the 12 months immediately preceding the date of this Prospectus and up to the LPD.

Further, save as disclosed in Section 14.5 of this Prospectus, our Directors have no knowledge of any proceedings pending or threatened of any fact likely to give rise to any proceedings which may materially and adversely affect the business or financial position of our Group as at the LPD.

(ii) Contingent Liabilities

As at the LPD, there are no material contingent liabilities, which upon becoming enforceable may have substantial impact on the financial position of our Group.

(iii) Material Capital Commitments for Capital Expenditure

As at LPD, our Group's material capital commitments are summarised as follows:

	Capital commitment	Source of funds	
		Internal generated funds	IPO proceeds
	RM'000	RM'000	RM'000
Approved and / or contracted for:			
Capital expenditure			
Setting up the VSIP2 Factory Complex	22,740	-	22,740
Expansion of facilities in Shah Alam Factory Complex	6,458	[(a)]1,958	[(b)]4,500
Total	**29,198**	**1,958**	**27,240**

Notes:

(a) Total estimated cost for the Shah Alam Phase 1 Expansion is RM1.88 million. Of the RM1.88 million, we have incurred RM1.71 million as at the LPD. The remaining RM0.08 million will be allocated for the Shah Alam Phase 2 Expansion.

(b) Total estimated cost for the Shah Alam Phase 2 Expansion is RM4.58 million, which will be funded through the combination of IPO proceeds of RM4.50 million and internally generated funds of RM0.08 million.

As at the LPD, our capital commitment of RM29.20 million is for the expansion of our Vietnam and Malaysia operations, which is part of our business strategies. Of the RM29.20 million, RM27.24 million will be funded through IPO proceeds, while the remaining RM1.96 million will be funded through internally generated funds. Please refer to Sections 2.8 and 5.21 of this Prospectus for further details on the use of the IPO proceeds and our business strategies.

As at the LPD, save as disclosed in the table above, there are no other material capital commitments incurred or known to be incurred by our Group.

11.5 Key Financial Ratios

The following table provides the key financial ratios based on our combined financial statements for the financial years indicated below:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Average trade receivables turnover period (days)[(a)]	62	59	57	63
Average trade payables turnover period (days)[(b)]	21	22	23	37
Average inventory turnover period (raw materials and packing materials) (days)[(c)]	128	121	120	98
Average inventory turnover period (finished goods and goods on consignment) (days)[(d)]	31	35	37	44
Current ratio[(e)]	1.62	1.89	6.33	6.92
Gearing ratio[(f)]	0.05	0.03	0.01	N/A

Notes:

N/A Not applicable as we did not have any indebtedness as at 30 June 2018.

(a) Based on dividing the average closing balance of trade receivables after deducting impairment for doubtful debt (net of trade receivable), by the revenue of the respective financial years. Average closing balance of net trade receivables for a particular financial year is calculated by adding the value of that financial year's closing balance of net trade receivables with that of the previous financial year, and dividing the total by two.

(b) Based on dividing the average closing balance of trade payables by the cost of sales of the respective financial years. Average closing balance of trade payables for a particular financial year is calculated by adding the value of that financial year's closing balance of trade payables with that of the previous financial year, and dividing the total by two.

(c) Based on dividing the average closing balance of raw materials and packing materials, by the cost of sales of the respective financial years. Average closing balance of raw materials and packing materials for a particular financial year is calculated by adding the value of that financial year's closing balance of raw materials and packing materials with that of the previous financial year, and dividing the total by two.

(d) Based on dividing the average closing balance of finished goods and goods on consignment, by the cost of sales of the respective financial years. Average closing balance of finished goods and goods on consignment for a particular financial year is calculated by adding the value of that financial year's closing balance of finished goods and goods on consignment with that of the previous financial year, and dividing the total by two.

(e) Based on current asset divided by current liabilities.

(f) Based on total borrowings divided by total equity.

(i) Trade Receivables

A summary of our trade receivables for the FYE 2015 to FYE 2017 is provided in the following table:

	FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Trade receivables	**9,963**	**12,554**	**12,040**	**13,948**	**16,241**
Less:					
Impairment for doubtful debt	752	-	(106)	(26)	**(26)**
Net trade receivables	**9,211**	**12,554**	**11,934**	**13,922**	**16,215**
Revenue	56,664	63,627	75,862	82,364	86,811
Average trade receivables turnover period (days)	N/A	62	59	57	63

Note:

N/A Not applicable.

We deal with our customers either on cash terms, or on credit terms. The normal credit terms that we generally grant to our customers range from 1 to 120 days.

The credit terms granted to our customers are assessed and approved on a case-by-case basis. The factors that are taken into consideration include our relationship with the customer, their payment history, credit worthiness, quantum of amount owing to us, and any reasons behind the customer's failure to pay within the normal credit period.

The average trade receivables turnover period was computed based on our net trade receivables (after deducting impairment for doubtful debts).

Our average trade receivables turnover period declined from 62 days for the FYE 2015 to 59 days for the FYE 2016. During the FYE 2015, we extended credit to secure more customers and to increase sales. The decline in average trade receivables turnover period in the FYE 2016 was due mainly to improvement in collection from customers.

For the FYE 2017, our average trade receivables turnover period declined from 59 days to 57 days.

Our average trade receivables turnover period for the FYE 2018 increased to 63 days as we have extended credit terms to secure more customers.

The ageing analysis of our Group's trade receivables as at 30 June 2018 is as follows:

		Past due			
	Not past due	**1-30 days**	**31-60 days**	**More than 60 days**	**Total**
Trade receivables (RM'000)	**10,535**	**3,925**	**774**	**1,007**	**16,241**
Less:					
Impairment for doubtful debts (RM'000)	-	-	-	(26)	(26)
Net trade receivables (RM'000)	**10,535**	**3,925**	**774**	**981**	**16,215**
Proportion of total net trade receivables (%)	*64.97*	*24.21*	*4.77*	*6.05*	*100.00*
Subsequent collections as at the LPD (RM'000)	(9,902)	(3,814)	(681)	(444)	(14,841)
Net trade receivables after subsequent collections (RM'000)	**633**	**111**	**93**	**537**	**1,374**

As at the LPD, RM14.80 million, or 91.53% of the total net trade receivables outstanding as at 30 June 2018 have been subsequently collected. The remaining outstanding amount was RM1.37 million, representing 8.47% of total net trade receivables outstanding as at 30 June 2018.

RM0.63 million or 46.07% of the remaining outstanding amount is within our credit period, while RM0.74 million or 53.93% that has exceeded the credit period. Of the amount that exceeded the credit period, RM0.68 million or 91.89% was attributed to our customers from our Vietnam operations due to delay in payment by numerous customers who have requested for an extended credit term for repayment as a result of delay in collection from their clients. The extended credit terms were granted after taking into consideration the payment history and our relationship with these customers. The remaining amount of approximately RM0.06 million or 8.11% was from our Malaysia operations.

Our Group's average trade receivables turnover period is adequately managed and is consistent with our policy for credit control purposes. Our Directors are of the opinion that the remaining outstanding amounts are recoverable after taking into consideration our credit control procedures to limit the payment default of our customers.

(ii) **Trade Payables**

A summary of our trade payables for the FYE 2015 to FYE 2018 is provided in the following table:

	FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Trade payables	**2,107**	**3,007**	**3,331**	**3,880**	**8,421**
Cost of sales	40,213	44,872	51,698	56,034	61,402
Average trade payables turnover period (days)	N/A	21	22	23	37

Note:

N/A Not applicable.

We deal with our suppliers either on cash terms or on credit terms. Our suppliers generally grant us credit terms that range from 30 to 90 days. Our average trade payables turnover periods are relatively low and they were within the credit period. Our average trade payables turnover period for the FYE 2018 increased to 37 days due mainly to some of our suppliers, who previously required advance payment, granted us with new credit terms of 30 days and 45 days.

The ageing analysis of our Group's trade payables as at 30 June 2018 is as follows:

	Not past due	Past due			Total
		1-30 days	31-60 days	More than 60 days	
Trade payables (RM'000)	**6,340**	**1,821**	**241**	**19**	**8,421**
Net trade payables (RM'000)	6,340	1,821	241	19	8,421
Proportion of total net trade payables (%)	*75.29*	*21.62*	*2.86*	*0.23*	*100.00*
Subsequent payments as at LPD (RM'000)	(5,737)	(1,821)	(241)	(19)	(7,818)
Net trade payables after subsequent payments (RM'000)	**603**	-	-	-	**603**

As at the LPD, a total of RM8.41 million or 99.92% of the total outstanding trade payables as at 30 June 2018 has been paid to the trade payables.

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(iii) **Inventory Turnover**

A summary of our Group's inventory for the FYE 2015 to FYE 2018 is set out below:

	FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Total inventory	**19,283**	**21,961**	**24,928**	**25,343**	**24,817**
Consisting of:					
Raw materials	*15,073*	*15,906*	*17,611*	*18,428*	*13,930*
Packing materials	*287*	*274*	*365*	*374*	*308*
Work in progress	*558*	*660*	*550*	*727*	*1,212*
Finished goods	*2,985*	*4,163*	*5,566*	*5,814*	*8,990*
Goods in transit	*186*	*772*	*809*	-	*377*
Goods on consignment	*194*	*186*	*27*	-	-
Cost of sales	40,213	44,872	51,698	56,034	61,402
Average inventory turnover period (raw materials and packing materials) (days)	N/A	128	121	120	98
Average inventory turnover period (finished goods and goods on consignment) (days)	N/A	31	35	37	44

Note:

N/A Not applicable.

Our inventory mainly comprises the following:

(i) raw materials consist mainly of base adhesives, base materials for sealants, and additives;

(ii) packing materials consist mainly of plastic drums, bottles, pails, laminated woven bags, plastic bags and carton boxes;

(iii) work in progress comprises the sum of all costs that have been incurred in manufacturing products that are partially completed;

(iv) finished goods comprise products that we have manufactured such as water-based adhesives, hot melt adhesives, sealants, and OEM industrial adhesives and sealants, that are stored prior to final delivery to customers;

(v) goods in transit comprise raw materials, which we have purchased and have left our suppliers' shipping dock, but have yet to reach us; and

(vi) goods on consignment comprise mainly goods that have left our premises, but have yet to reach our customers' receiving dock.

It is our Group's general practice to maintain a sustainable level of raw materials to reduce risk of disruption to our manufacturing operation arising from a shortage of the raw materials. This is because some of our raw materials, particularly base adhesive for water-based and hot melt adhesives, and additives are imported from United States of America, Taiwan and Japan, which require a longer delivery lead time.

Nonetheless, the decline in our average inventory turnover period (raw materials and packing materials) from 128 days for FYE 2015 to 98 days for FYE 2018 was attributed mainly to our decision to reduce the level of raw materials storage due to the increase in the cost of imported raw materials.

Our average inventory turnover period (finished goods and goods on consignment) increased from 31 days for FYE 2015 to 37 days for FYE 2017 due mainly to the higher level of finished goods maintained to cater for the expected increase in sales orders, especially for the water-based adhesives for bottle labelling application, which was launched in the third quarter of the FYE 2017. The increase in average inventory turnover period (finished goods and goods on consignment) to 44 days for FYE 2018 was also due mainly to higher level of finished goods maintained to cater for the expected increase in sales orders in respect of the water-based adhesives for woodworking application.

(iv) <u>Current Ratio</u>

The table below provides a summary of our Group's current ratio:

	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Current assets	45,807	53,322	60,569	72,292
Current liabilities	27,803	28,182	9,569	10,452
Current ratio (times)[(a)]	1.62	1.89	6.33	6.92

Note:

(a) Current ratio is calculated based on current assets divided by current liabilities.

As at 30 June 2016, our current ratio was 1.89 times, which was higher compared to 1.65 times as at 30 June 2015. This was due mainly to the increase in cash and bank balances which was also contributed by the increase in received collections from customers. The received collections from customers increased from RM60.34 million in the FYE 2015 to RM75.97 million in the FYE 2016.

As at 30 June 2017, our current ratio was 6.33 times, which was higher compared to 1.89 times as at 30 June 2016. The decrease in other payables of RM18.54 million was due mainly to the reversal of the sale and purchase agreement for the Shah Alam Factory I between Techbond Manufacturing and LST Realty Sdn Bhd (a property investment company of the Promoters).

Our current ratio as at 30 June 2018 was 6.92 times, which was higher than the ratio as at 30 June 2017. This was contributed by an improvement in our cash and bank balances, which increased from RM18.62 million as at 30 June 2017 to RM27.68 million as at 30 June 2018.

(v) **Gearing Ratio**

The table below provides a summary of our Group's gearing ratio:

	FYE 2015 RM'000	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000
Total borrowings[(a)]	1,586	1,144	682	-
Total equity	33,652	41,109	73,611	84,778
Gearing ratio (times)[(b)]	0.05	0.03	0.01	N/A

Notes:

N/A Not applicable as we did not have any indebtedness as at 30 June 2018.

(a) Total borrowings include term loans.

(b) Gearing ratio is calculated based on total borrowings divided by total equity.

As at 30 June 2016, our gearing ratio was 0.03 times, which was lower compared to 0.05 times as at 30 June 2015. This was mainly due to the higher repayment of term loans during the FYE 2016.

As at 30 June 2017, our gearing ratio was 0.01 times, which was lower compared to 0.03 times as at 30 June 2016. This was mainly due to the higher repayment of term loans during the FYE 2017.

We did not have any outstanding bank borrowings as at 30 June 2018.

11.6 Trend Analysis

Our Group's financial position and results of operations for the FYE 2018 have not been affected by any significant events or changes that have occurred during the financial year. In addition, as at the LPD, our operations have not been and are not expected to be affected by any of the following:

(i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations other than those discussed in this section and Sections 4, 5, 6 and 7 of this Prospectus;

(ii) material commitment for capital expenditure, as set out in Section 11.4.7 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations, save as disclosed in this section and Section 7 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and / or profits, save for those that have been disclosed in this section, and in Sections 4, 5, 6 and 7 of this Prospectus;

(v) known trends, demands, commitments, events or uncertainties that have had, or that we reasonably expect to have, a material favourable or unfavourable impact on our liquidity and capital resources, other than those discussed in this section and Sections 4, 5, 6 and 7 of this Prospectus; and

(vi) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of the future financial performance and position other than those disclosed in this section and Sections 4, 5, 6 and 7 of this Prospectus.

Based on the outlook of the industrial adhesives in Malaysia and Vietnam as set out in Section 6 of this Prospectus, our competitive advantages and key strengths, and business strategies as set out in Section 5 of this Prospectus, our Board is optimistic about the future prospects of our Group.

11.7 Order Book

We do not maintain an order book as we are a developer and manufacturer of industrial adhesives, whereby our sales are carried out based on purchase orders that we receive from our customers on an on-going basis.

11.8 Significant Changes

Save as disclosed in this Prospectus, there is no significant changes that have occurred, which may have a material effect on the financial position and results of our Group subsequent to the FYE 2018 up to the LPD.

11.9 Dividend Policy and Restrictions

Currently, our Company does not have a fixed dividend policy. However, it is the intention of our Board to retain adequate reserves for our future growth as well as to reward our shareholders with participation in the profits of our Group.

As we are primarily an investment holding company, our Company's income, and therefore our ability to pay dividends is dependent upon the dividends and other distributions we receive from our Subsidiaries. With respect to our subsidiaries in Malaysia, save for compliance with the solvency requirements under the Act (which is applicable to all Malaysian companies), and the covenants in their existing loan agreements which restrict the payment of dividends or other distributions until such loan are fully settled (or unless prior approval of the lenders is obtained), there are no legal, financial or economic restriction on our Malaysian subsidiaries to transfer funds in the form of cash dividends, loans or advances to us.

With respect to our subsidiaries in Vietnam:

(i) the declaration and payment of dividend / profit by Techbond Vietnam should be made in accordance with Article 69 of Law on Enterprises 2014 and Article 30 of its charter; and

(ii) the declaration and payment of dividend / profit by Techbond Mfg Vietnam should be made in accordance with Articles 75.1(1) and 76.6 of Law on Enterprises 2014 and Articles 11.4 and 12.6 of its charter.

The laws of Vietnam also provides that the matters mentioned above shall be subject to the following:

(i) our Vietnamese subsidiaries may distribute dividend only when they generate profit from their business and have fulfilled their tax obligations and other financial obligations in accordance with the law, and must ensure that due debts and other property obligations are able to be paid in full after distribution of dividend / profit;

(ii) our Company shall be permitted to remit profit overseas annually or on termination of its direct investment activities after the corporation have fully discharged its financial obligations (such as tax and insurance payment) to the State of Vietnam in accordance with the law and have lodged the audited financial statements and corporate income tax finalisation declaration with the tax authority; and

(iii) our Vietnamese subsidiaries must send a report to the tax authority at least seven working days before implementation under Article 5 of Circular No.186/2010/TT-BTC dated 18 November 2010 of the Ministry of Finance, guiding the remittance abroad of profits earned by foreign investors from their direct investment in Vietnam under the Investment Law.

The payment of dividends by our Subsidiaries will depend on various factors including operating results, financial condition, capital expenditure plans, and the covenants in their existing loan agreements (as described above).

Our ability to declare and pay interim dividends as well as to recommend final dividends are subject to the discretion of our Board. However, in considering the level of dividend, if any, upon recommendation by our Board, we intend to take into account various factors including:

(i) our expected results of operations;

(ii) required and expected interest expense and taxation, cash flows, our profits and return on equity and retained earnings;

(iii) our projected levels of capital expenditure and other investment plans;

(iv) the prevailing interest rates and yields of the financial market; and

(v) the level of our cash, marketable financial assets and level of indebtedness.

We will also need to obtain our shareholders' approval for any final dividend for the year.

For factors that may affect or restrict our ability to pay dividends, please refer to Section 7.2.5 of this Prospectus. You should note that future dividends proposed and declared, may vary depending on the financial performance and cash flows of our Group and may not occur if the payment of the dividends would adversely affect the cash flows and operations of our Group.

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Grant Thornton
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Date: 16 October 2018

The Board of Directors
Techbond Group Berhad
No. 36, Jalan Anggerik Mokara 31/59
Seksyen 31, Kota Kemuning
40460 Shah Alam
Selangor Darul Ehsan

Grant Thornton Malaysia
(AF:0737)
Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

T +603 2692 4022
F +603 2691 5229

Dear Sirs,

Reporting Accountants' opinion on the financial information contained in the accountants' report of Techbond Group Berhad ("the Company" or "Techbond")

We have audited the financial information ("Financial Information") of Techbond Group Berhad and its subsidiaries (collectively "the Group") which comprises the combined statements of financial position of the Group as at 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018, and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ("FYE") ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 52.

In our opinion, the accompanying Financial Information give a true and fair view of the financial position of the Group as at 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018 and of its financial performance and cash flows for the financial years then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Reporting Accountants' responsibilities for the audit of the Financial Information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

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

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Responsibilities of the Directors for the Financial Information

The Directors of the Group are responsible for the preparation of the Financial Information of the Group that give a true and fair view in accordance with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"). The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of Financial Information of the Group that are free from material misstatement, whether due to fraud or error.

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

Reporting Accountants' Responsibility for the Audit of Financial Information

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

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

- Identify and assess the risks of material misstatement of the Financial Information of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Financial Information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

We also (cont'd):

- Evaluate the overall presentation, structure and content of the Financial Information of the Group, including the disclosures, and whether the Financial Information of the Group represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the Financial Information of the entities or business activities within the Group to express and opinion on the Financial Information of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other matters

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Techbond Group Berhad in connection with the listing of and quotation for the entire enlarged issued share capital of Techbond Group Berhad on the Main Market of Bursa Malaysia Securities Berhad and should not be relied upon for any other purposes. We do not assume responsibility to any other person for the content of this report.

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

KHO KIM ENG
(NO: 03137/10/2020 J)
CHARTERED ACCOUNTANT
PARTNER

TECHBOND GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017 AND 30 JUNE 2018

	Note	2015	2016	2017	2018
		RM	RM	RM	RM
ASSETS					
Non-current assets					
Property, plant and equipment	5	17,591,351	16,723,028	16,133,990	16,865,307
Land use rights	6	364,785	270,703	7,126,052	6,606,427
Fixed deposit with a licensed bank	7	6,500	21,000	-	-
Other receivables	8	417,482	319,694	292,997	230,820
Total non-current assets		18,380,118	17,334,425	23,553,039	23,702,554
Current assets					
Inventories	9	21,960,761	24,927,557	25,342,957	24,817,221
Trade receivables	10	12,553,928	11,933,573	13,922,322	16,214,925
Other receivables	8	1,719,234	3,320,539	2,678,823	3,584,092
Fixed deposits with licensed banks	7	2,173,678	1,502,673	6,361,303	10,835,245
Cash and bank balances		6,616,882	11,637,386	12,263,179	16,840,929
Total current assets		45,024,483	53,321,728	60,568,584	72,292,412
Total assets		63,404,601	70,656,153	84,121,623	95,994,966
EQUITY AND LIABILITIES					
EQUITY					
Share capital	11	1,548,900	1,548,900	22,998,902	22,998,902
Exchange translation reserve		3,695,945	5,313,173	7,051,066	4,798,618
Retained earnings		28,408,148	34,247,208	43,560,592	56,980,432
Total equity		33,652,993	41,109,281	73,610,560	84,777,952
LIABILITIES					
Non-current liabilities					
Borrowings	12	1,138,609	682,795	206,377	-
Deferred tax liabilities	13	599,877	517,381	615,245	689,935
Deferred income	14	210,000	165,000	120,000	75,000
Total non-current liabilities		1,948,486	1,365,176	941,622	764,935
Current liabilities					
Trade payables	15	3,007,437	3,330,573	3,880,423	8,421,376
Other payables	16	22,144,406	22,181,178	3,645,779	1,329,148
Amount due to a Director	17	700,000	-	-	-
Borrowings	12	447,518	461,407	475,254	-
Tax payable		1,458,761	2,163,538	1,522,985	656,555
Deferred income	14	45,000	45,000	45,000	45,000
Total current liabilities		27,803,122	28,181,696	9,569,441	10,452,079
Total liabilities		29,751,608	29,546,872	10,511,063	11,217,014
Total equity and liabilities		63,404,601	70,656,153	84,121,623	95,994,966

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

TECHBOND GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017 AND 30 JUNE 2018

	Note	2015 RM	2016 RM	2017 RM	2018 RM
Revenue	18	63,626,796	75,861,844	82,363,850	86,811,281
Cost of sales		(44,872,204)	(51,698,012)	(56,034,101)	(61,401,951)
Gross profit		18,754,592	24,163,832	26,329,749	25,409,330
Other income		1,882,962	1,021,674	1,181,231	715,227
Administration expenses		(4,999,271)	(6,266,585)	(5,800,180)	(6,399,413)
Distribution expenses		(1,839,499)	(2,007,651)	(2,209,089)	(1,859,182)
Other expenses		(1,086,511)	(1,335,890)	(467,763)	(758,512)
Finance costs		(71,767)	(58,018)	(37,373)	(8,787)
Profit before taxation	19	12,640,506	15,517,362	18,996,575	17,098,663
Taxation	20	(3,161,547)	(3,828,917)	(4,443,948)	(3,678,823)
Net profit for the financial year		9,478,959	11,688,445	14,552,627	13,419,840
Other comprehensive income, net of tax:					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		3,220,667	1,617,228	1,737,893	(2,252,448)
Total comprehensive income for the financial year wholly attributable to the owners of the Company		12,699,626	13,305,673	16,290,520	11,167,392
Earnings per share					
- Basic (sen)	21	611.98	754.63	113.41	58.35
- Diluted (sen)	21	*	*	*	*

* *There are no dilutive potential equity instruments that would give a diluted effect to the basic earnings per share*

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

TECHBOND GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017 AND 30 JUNE 2018

	Note	Non-distributable		Distributable	
		Share capital RM	Exchange translation reserve RM	Retained earnings RM	Total RM
Group					
Balance as at 1 July 2014		1,548,900	475,278	40,726,549	42,750,727
Transaction with owners:					
Interim dividend declared	22	-	-	(21,797,360)	(21,797,360)
Total transaction with owners		-	-	(21,797,360)	(21,797,360)
Net profit for the financial year		-	-	9,478,959	9,478,959
Foreign currency translation differences		-	3,220,667	-	3,220,667
Total comprehensive income for the financial year		-	3,220,667	9,478,959	12,699,626
Balance as at 30 June 2015		1,548,900	3,695,945	28,408,148	33,652,993
Transaction with owners:					
Interim dividend declared	22	-	-	(5,849,385)	(5,849,385)
Total transaction with owners		-	-	(5,849,385)	(5,849,385)
Net profit for the financial year		-	-	11,688,445	11,688,445
Foreign currency translation differences		-	1,617,228	-	1,617,228
Total comprehensive income for the financial year		-	1,617,228	11,688,445	13,305,673
Balance as at 30 June 2016		1,548,900	5,313,173	34,247,208	41,109,281
Transaction with owners:					
Issuance of new shares	11	21,450,002	-	-	21,450,002
Interim dividend declared	22	-	-	(5,239,243)	(5,239,243)
Total transaction with owners		21,450,002	-	(5,239,243)	16,210,759
Net profit for the financial year		-	-	14,552,627	14,552,627
Foreign currency translation differences		-	1,737,893	-	1,737,893
Total comprehensive income for the financial year		-	1,737,893	14,552,627	16,290,520
Balance as at 30 June 2017		22,998,902	7,051,066	43,560,592	73,610,560
Net profit for the financial year		-	-	13,419,840	13,419,840
Foreign currency translation differences		-	(2,252,448)	-	(2,252,448)
Total comprehensive income for the financial year		-	(2,252,448)	13,419,840	11,167,392
Balance as at 30 June 2018		22,998,902	4,798,618	56,980,432	84,777,952

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

TECHBOND GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017 AND 30 JUNE 2018

	Note	2015	2016	2017	2018
		RM	RM	RM	RM
OPERATING ACTIVITIES					
Profit before taxation		12,640,506	15,517,362	18,996,575	17,098,663
Adjustments for:-					
Amortisation of deferred income		(45,000)	(45,000)	(45,000)	(45,000)
Amortisation of land use rights		12,625	122,049	15,643	94,849
Bad debts written off		752,122	588,715	36,539	-
Depreciation of property, plant and equipment		1,576,718	1,293,553	1,296,958	1,209,663
Gain on disposal of property, plant and equipment		(53,330)	-	-	-
Hire purchase interest		116	-	-	-
Interest income		(45,855)	(72,012)	(113,219)	(418,280)
Property, plant and equipment written off		-	1,676	2	27,160
Provision for doubtful debts		-	107,668	-	-
Reversal of provision for doubtful debts		(752,122)	-	-	-
Reversal of provision for unutilised annual leave		(2,851)	(21,448)	-	-
Term loan interest		71,651	58,018	37,373	8,787
Unrealised (gain)/loss on foreign exchange		(409,790)	(71,220)	(406,306)	464,381
Written off of slow moving inventories		-	38,268	-	53,926
Operating profit before working capital changes		13,744,790	17,517,629	19,818,565	18,494,149
Changes in working capital:-					
Inventories		(2,677,298)	(3,005,064)	(415,400)	(154,850)
Receivables		(3,539,263)	(1,697,924)	(1,464,099)	(3,772,513)
Payables		1,997,922	381,356	(1,636,457)	5,564,556
Director		(2,900,000)	(700,000)	-	-
Cash generated from operations		6,626,151	12,495,997	16,302,609	20,131,342
Tax paid		(2,932,945)	(3,206,636)	(4,986,637)	(4,791,927)
Tax refunded		-	-	-	374,113
Interest paid		(71,767)	(58,018)	(37,373)	(8,787)
Interest received		45,855	72,012	113,219	418,280
Net cash from operating activities		3,667,294	9,303,355	11,391,818	16,123,021

TECHBOND GROUP BERHAD
(Incorporated in Malaysia)

COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEARS ENDED 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017 AND 30 JUNE 2018 (CONT'D)

	Note	2015 RM	2016 RM	2017 RM	2018 RM
INVESTING ACTIVITIES					
(Placement)/upliftment of fixed deposit		(6,500)	(14,500)	21,000	-
Acquisition of land use rights		-	-	(6,853,387)	-
Proceeds from disposal of property, plant and equipment		110,998	-	-	-
Purchase of property, plant and equipment		(1,968,992)	(211,891)	(530,357)	(2,126,485)
Net cash used in investing activities		(1,864,494)	(226,391)	(7,362,744)	(2,126,485)
FINANCING ACTIVITIES					
Repayment of term loans		(428,294)	(441,925)	(462,571)	(681,631)
Repayment of hire purchase creditors		(26,034)	-	-	-
Proceeds from government grant received		300,000	-	-	-
Proceeds from issuance of shares		-	-	2,000,002	-
Dividend paid		(1,557,360)	(5,849,385)	(2,138,335)	(3,100,908)
Net cash used in financing activities		(1,711,688)	(6,291,310)	(600,904)	(3,782,539)
CASH AND CASH EQUIVALENTS					
Net increase		91,112	2,785,654	3,428,170	10,213,997
Effect of foreign currency translation differences		3,071,741	1,563,845	2,056,253	(1,162,305)
At beginning of financial year		5,627,707	8,790,560	13,140,059	18,624,482
At end of financial year	A	8,790,560	13,140,059	18,624,482	27,676,174

NOTE TO THE STATEMENTS OF CASH FLOWS:-

A. CASH AND CASH EQUIVALENTS

	2015 RM	2016 RM	2017 RM	2018 RM
Cash and bank balances	6,616,882	11,637,386	12,263,179	16,840,929
Fixed deposits with licensed banks	2,173,678	1,502,673	6,361,303	10,835,245
	8,790,560	13,140,059	18,624,482	27,676,174

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

NOTES TO THE FINANCIAL INFORMATION – 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017 AND 30 JUNE 2018

1. GENERAL INFORMATION

1.1 Introduction

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

1.2 Background

The Company was incorporated on 8 June 2016 as a private limited liability company and domiciled in Malaysia. The registered office is located at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur. The principal place of business of the Company is located at No. 36, Jalan Anggerik Mokara 31/59, Seksyen 31, Kota Kemuning, 40460 Shah Alam, Selangor Darul Ehsan. On 20 November 2017, the Company was converted into a public limited liability company and assumed its current name of Techbond Group Berhad.

1.3 Share capital

Issued share capital

The changes in Techbond's issued share capital since its date of incorporation and up to 15 October 2018 are as follows:

Date of issue	Purpose of issue	Class of shares	Number of shares	Term of issue
8 June 2016	Subscribers' shares	Ordinary shares	2	Cash
3 September 2018	Acquisition of subsidiaries	Ordinary shares	122,272,724	Non-cash
7 September 2018	Acquisition of subsidiary	Ordinary shares	47,622,274	Non-cash

1.4 Principal activities

Techbond's principal activity is investment holding and provision of management services.

The subsidiaries of Techbond as of the date of this report are as follows:

Name of company	Effective ownership	Principal activities	Date of incorporation	Country of incorporation
<u>**Subsidiaries**</u>				
Techbond Manufacturing Sdn. Bhd.	100%	Developing and manufacturing industrial adhesives and sealants and providing supporting products and services.	12.5.1992	Malaysia
Techbond (Sabah) Sdn. Bhd.	100%	Sales and marketing of industrial adhesives and sealants.	21.3.1996	Malaysia

1. GENERAL INFORMATION (CONT'D)

1.4 Principal activities (cont'd)

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

Name of company	Effective ownership	Principal activities	Date of incorporation	Country of incorporation
Subsidiaries				
Techbond International Sdn. Bhd.	100%	Investment holding.	30.3.2016	Malaysia
Techbond (Vietnam) Co., Ltd.	100%	Manufacturing of industrial adhesives, and providing supporting products and services.	22.5.2002	Vietnam
Techbond MFG (Vietnam) Co., Ltd.	100%	Currently dormant. Proposed principal activities are to manufacture industrial adhesives and sealants, and base adhesives, and provide supporting products and services.	14.10.2016	Vietnam

There was no significant change in the nature of the principal activities of Techbond and its subsidiaries during the financial years ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018 under audit of this report.

1.5 The Acquisitions

The Techbond Group has been formed pursuant to the completion of the following acquisitions by Techbond subsequent to the listing and quotation on the Main Market of Bursa Malaysia Securities Berhad.

(a) Techbond acquired the entire issued share capital of Techbond Manufacturing Sdn. Bhd. comprising 20,000,000 ordinary shares;

(b) Techbond acquired the entire paid-in capital of Techbond (Vietnam) Co., Ltd. of USD 300,000;

(c) Techbond acquired the entire issued share capital of Techbond (Sabah) Sdn. Bhd. comprising 50,000 ordinary shares; and

(d) Techbond acquired the entire issued share capital of Techbond International Sdn. Bhd. comprising 2,000,000 ordinary shares.

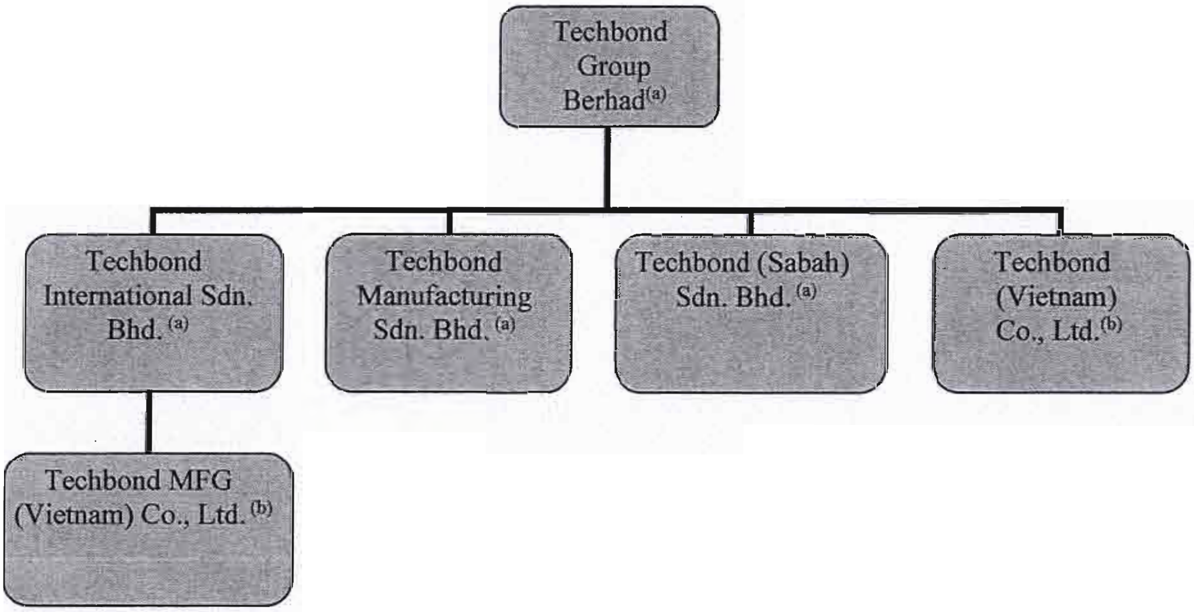
(Collectively referred to as "Acquisitions")

The aggregate purchase consideration for the above Acquisitions was RM101,936,999 satisfied by the issuance of 169,894,998 new shares at its indicative value of RM0.60 per share.

1. GENERAL INFORMATION (CONT'D)

1.5 The Acquisitions (cont'd)

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



Notes:

(a) *Incorporated in Malaysia*

(b) *Incorporated in Vietnam*

2. RELEVANT FINANCIAL YEARS/PERIOD

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

Company	Relevant Financial Years/Period	Auditor
Techbond Group Berhad	Financial period from 8 June 2016 (Date of incorporation) to 30 June 2017	Grant Thornton Malaysia
	Financial year ended ("FYE") 30 June 2018	Grant Thornton Malaysia
Techbond Manufacturing Sdn. Bhd.	FYE 30 June 2015	William C. H. Tan & Associates
	FYE 30 June 2016	Grant Thornton Malaysia
	FYE 30 June 2017	Grant Thornton Malaysia
	FYE 30 June 2018	Grant Thornton Malaysia
Techbond (Vietnam) Co., Ltd.	FYE 30 June 2015	AS Auditing Company Limited
	FYE 30 June 2016	Grant Thornton (Vietnam) Limited
	FYE 30 June 2017	Grant Thornton (Vietnam) Limited
	FYE 30 June 2018	Grant Thornton (Vietnam) Limited

2. RELEVANT FINANCIAL YEARS/PERIOD (CONT'D)

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

Company	Relevant Financial Years/Period	Auditor
Techbond (Sabah) Sdn. Bhd.	FYE 30 June 2015	William C. H. Tan & Associates
	FYE 30 June 2016	Grant Thornton Malaysia
	FYE 30 June 2017	Grant Thornton Malaysia
	FYE 30 June 2018	Grant Thornton Malaysia
Techbond International Sdn. Bhd.	Financial period from 30 March 2016 (Date of incorporation) to 30 June 2017	Grant Thornton Malaysia
	FYE 30 June 2018	Grant Thornton Malaysia
Techbond MFG (Vietnam) Co., Ltd.	Financial period from 14 October 2016 (Date of incorporation) to 30 June 2017	Grant Thornton (Vietnam) Limited
	FYE 30 June 2018	Grant Thornton (Vietnam) Limited

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

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

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

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

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

The combining entities previously applied Private Entity Reporting Standards ("PERSs") during the financial year ended 30 June 2015.

The combining entities adopted MFRS and IFRS for the first-time during the financial year ended 30 June 2016. There were no significant financial impacts on transition to MFRS.

Consequently, comparative information for the financial year ended 30 June 2015, and opening MFRS statement of financial position as at 1 July 2014 have been restated accordingly in the financial statements of each of the combining entities.

3. BASIS OF PREPARATION (CONT'D)

3.2 Basis of measurement

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

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

3.3 Functional and presentation currency

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

3.4 Adoption of amendments/improvements to MFRSs

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

At the beginning of the current financial year, the Group adopted amendments/improvements to MFRSs which are mandatory for current financial year.

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

Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiative

The Group has applied these amendments for the first time in the current financial year. The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The information is provided in Note 27.4 to Financial Statements: Consistent with the transition provisions of the amendments, the Group did not disclose comparative information for the prior year.

3.5 Standards issued but not yet effective

The Group have not applied the following MFRSs and amendments to MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group:

MFRSs, Amendments to MFRSs and IC Interpretation effective 1 January 2018:-

MFRS 9	Financial Instruments IFRS 9 issued by International Accounting Standards Board ("IASB") in July 2014
MFRS 15	Revenue from Contracts with Customers
MFRS 15	Clarification to MFRS 15
Amendments to MFRS 2*	Share-based Payment: Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4*	Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
Amendments to MFRS 7	Financial Instruments - Disclosure: Mandatory effective date of MFRS 9 and transitional disclosures
Amendments to MFRS 140*	Investment Property: Transfers of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance consideration

Annual Improvements to MFRS Standards 2014 – 2016 Cycle (except for Amendments to MFRS 12 Disclosure of Interests in Other Entities)*

3. BASIS OF PREPARATION (CONT'D)

3.5 Standards issued but not yet effective (cont'd)

The Group have not applied the following MFRSs and amendments to MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group (cont'd):

<u>MFRS, Amendments to MFRSs and IC Interpretation effective 1 January 2019:-</u>

MFRS 16	Leases
Amendments to MFRS 9*	Financial Instruments: Prepayment Features with Negative Compensation
Amendments to MFRS 119*	Post-employment Benefits: Defined Benefits Plans
Amendments to MFRS 128*	Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
IC Interpretation 23*	Uncertainty Over Income Tax Treatments

Annual improvements to MFRS Standards 2015 – 2017 Cycle*

<u>Amendments to References to the Conceptual Framework on MFRS Standards effective 1 January 2020:-</u>

Amendments to MFRS 2*	Share-based Payment
Amendments to MFRS 3*	Business Combinations
Amendments to MFRS 6*	Exploration for and Evaluation of Mineral Resources
Amendments to MFRS 14*	Regulatory Deferral Accounts
Amendments to MFRS 101	Presentation of Financial Statements
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to MFRS 134*	Interim Financial Reporting
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendments to MFRS 138*	Intangible Assets
Amendments to IC Interpretation 12*	Service Concession Arrangements
Amendments to IC Interpretation 19*	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IC Interpretation 20*	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to IC Interpretation 132*	Intangible Assets – Web Site Costs

<u>MFRS effective 1 January 2021:-</u>

MFRS 17*	Insurance Contracts

3. BASIS OF PREPARATION (CONT'D)

3.5 Standards issued but not yet effective (cont'd)

The Group have not applied the following MFRSs and amendments to MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group (cont'd):

Amendments to MFRSs - effective date deferred indefinitely:-

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

* Not applicable to Group's operations

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

MFRS 9 Financial Instruments

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. MFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During the financial year, the Group had performed a detailed impact assessment of all three aspects of MFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group when the Group adopts MFRS 9. Overall, the Group expects no significant impact on their statements of financial position and equity.

(a) Classification and measurement of financial assets

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flows characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

MFRS 9 requires the Group to record expected credit losses on all of their loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all loans and trade receivables.

3. BASIS OF PREPARATION (CONT'D)

3.5 Standards issued but not yet effective (cont'd)

The initial application of the above standards, amendments and interpretation are not expected to have any significant financial impacts to the Financial Information, except for (cont'd):

MFRS 15 Revenue From Contracts with Customers

MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled for transferring goods to a customer.

The new revenue standard will supersede all current revenue recognition requirements under MFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

The Group is in the business of trading in all types of construction materials and steel products. The goods are sold on their own in separate identified contracts with customers.

(a) Sale of goods

For contracts with customers in which sale of goods is generally expected to be the only performance obligation, adoption of MFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

In preparing to adopt MFRS 15, the Group considers the following:

Variable consideration

Some contracts with customers provide trade discounts and rights of return. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable and net of trade discounts and goods return. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under MFRS 15 and will be required to be estimated at contract inception and update thereafter. MFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

(b) Presentation and disclosure requirements

The presentation and disclosure requirements in MFRS 15 are more detailed than under current MFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in MFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the additional disclosure required. The Group has continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

3. BASIS OF PREPARATION (CONT'D)

3.5 Standards issued but not yet effective (cont'd)

The initial application of the above standards, amendments and interpretation are not expected to have any significant financial impacts to the Financial Information, except for (cont'd):

MFRS 15 Revenue From Contracts with Customers (cont'd)

(c) Other adjustments

The recognition and measurement requirements in MFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property, plant and equipment), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

MFRS 16 Leases

MFRS 16 replaces MFRS 117 Leases. MFRS 16 eliminates the distinction between finance and operating leases for lessees. As off-balance sheet will no longer be allowed except for some limited practical exemptions, all leases will be brought onto the statement of financial position by recognising a "right-of-use" asset and a lease liability. In other words, for a lessee that has material operating leases, the assets and liabilities reported on its statement of financial position are expected to increase substantially.

MFRS 16 also:
- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- changes the accounting for sale and leaseback arrangements;
- largely retains MFRS 117's approach to lessor accounting; and
- introduces new disclosure requirements.

The adoption of MFRS 16 will result in a change in accounting policy. The Group is currently assessing the financial impact of adopting MFRS 16.

3.6 Significant accounting estimates and judgements

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

3. BASIS OF PREPARATION (CONT'D)

3.6 Significant accounting estimates and judgements (cont'd)

3.6.1 Estimation uncertainty

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

Useful lives of depreciable assets

Management estimates the useful lives of the property, plant and equipment to be within 2 to 50 years and reviews the useful lives of depreciable assets at each reporting date. At the reporting date, the management assesses that the useful lives represent the expected utility of the assets to the Group. Actual results, however, may vary due to change in the expected level of usage and technological developments, which resulting the adjustment to the Group's assets.

The carrying amount of the Group's property, plant and equipment at the reporting date is disclosed in Note 5 to the Financial Information.

Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. The actual results may vary and may cause significant adjustments to the Group's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Income taxes and deferred tax liabilities

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

Inventories

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to economical and technology changes which may cause selling prices to change rapidly, and the Group's profits to change.

The carrying amount of the Group's inventories at the reporting date is disclosed in Note 9 to the Financial Information.

3. BASIS OF PREPARATION (CONT'D)

3.6 Significant accounting estimates and judgements (cont'd)

3.6.1 Estimation uncertainty (cont'd)

Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience of assets with similar credit risk characteristics.

The carrying amounts of the Group's loans and receivables at the reporting date are summarised in Notes 8 and 10 to the Financial Information.

3.6.2 Significant management judgement

There was no significant judgement made by management in the process of applying the accounting policies of the Group which may have significant effect on the amount recognised in the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The Group applies significant accounting policies, as summarised below, consistently throughout all years presented in the Financial Information unless otherwise stated.

4.1 Consolidation

4.1.1 Subsidiary companies

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

4.1.2 Basis of consolidation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.1 Consolidation (cont'd)

4.1.2 Basis of consolidation (cont'd)

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

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

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

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

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

4.1.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.1 Consolidation (cont'd)

4.1.3 Business combinations and goodwill (cont'd)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4.1.4 Loss of control

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

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

4.2 Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.2 Property, plant and equipment (cont'd)

Property, plant and equipment are written down to recoverable amount if, in the opinion of the Directors, it is less than their carrying value. Recoverable amount is the net selling price of the property, plant and equipment i.e. the amount obtainable from sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Depreciation is recognised on the straight-line method in order to write off the cost of each asset over its estimated useful lives. Freehold land with an infinite life is not depreciated. Other property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:

Buildings	2%-4%
Renovation	2%
Motor vehicles	10%-20%
Office furniture and equipment	10%-33%
Plant and machinery	10%-50%

Capital work-in-progress consists of machineries and equipment under installation for their intended use as production facilities and the amount is stated at cost. Assets under construction are not depreciated until they are completed and ready for their intended use.

The residual values, useful lives and depreciation method are reviewed at least annually to ensure that the amount, method and rates of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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

4.3 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of raw materials are determined on weighted average basis which include all expenses incurred in bringing the inventories to their present location and condition. Cost of work-in-progress and finished goods are determined using standard costing which includes cost of purchases, direct labours and other production costs.

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

4.4 Financial instruments

4.4.1 Initial recognition and measurement

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

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (cont'd)

4.4.2 Financial assets – categorisation and subsequent measurement

Financial assets and financial liabilities are measured subsequently as described below:

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

(a) loans and receivables;
(b) financial assets at fair value through profit or loss;
(c) held to maturity investments; and
(d) available-for-sale financial assets.

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

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

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expired or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

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

Loans and receivables

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

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

4.4.3 Financial liabilities

After the initial recognition, financial liabilities are classified as:

(a) financial liabilities at fair value through profit or loss;
(b) other financial liabilities measured at amortised cost; and
(c) financial guarantee contracts.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Financial instruments (cont'd)

4.4.3 Financial liabilities (cont'd)

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

At the reporting date, the Group carries only other financial liabilities measured at amortised cost on its combined statements of financial position.

Other liabilities measured at amortised cost

The Group's other liabilities include borrowings, amount due to a Director, trade and other payables.

Other liabilities are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

4.4.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the combined statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.5 Impairment of assets

4.5.1 Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.5 Impairment of assets (cont'd)

4.5.1 Non-financial assets (cont'd)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each individual classification of assets. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year. Impairment losses are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for asset in prior years. Such reversal is recognised in the profit or loss.

4.5.2 Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable date indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continue to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.5 Impairment of assets (cont'd)

4.5.2 Financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

4.6 Foreign currency translation

4.6.1 Foreign currency transactions and balances

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

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

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

	2015 RM	2016 RM	2017 RM	2018 RM
US Dollar				
- Closing rate	3.7730	4.0315	4.2940	4.0375
- Average rate	3.4608	4.1322	4.2881	4.0758

4.6.2 Foreign operations

The assets and liabilities of operations denominated in functional currencies other than RM are translated to RM at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RM at exchange rates at the date of the transactions.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Foreign currency translation (cont'd)

4.6.2 Foreign operations (cont'd)

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

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

4.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and fixed deposits which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the reporting date are classified as non-current assets.

4.8 Equity and reserves

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are equity instruments.

Retained earnings include all current and prior years' retained earnings.

All transactions with owners of the Group are recorded separately within equity.

4.9 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses, if any.

Amortisation is charged so as to write off the cost of land use rights, using the straight-line method, over the lease period of over 30-41 years. Land use rights represent up-front payment to acquire long-term interests in the usage of land in Vietnam.

4.10 Employees benefits

4.10.1 Short term employees benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial year in which the associated services are rendered by the employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Employees benefits (cont'd)

4.10.2 Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into independent entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

Such contributions are recognised as expenses in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

4.11 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

4.11.1 Sales of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

4.11.2 Interest income

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

4.12 Taxation

Taxations comprise current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss.

4.12.1 Current tax

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

Current tax is recognised in the statement of financial position as a liability (or an asset) to the extent that it is unpaid (or refundable).

4.12.2 Deferred tax

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.12 Taxation (cont'd)

4.12.2 Deferred tax (cont'd)

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

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

4.12.3 Goods and Services tax

Goods and Services tax ("GST") is a consumption tax based on value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate of 6%. Input GST that the Group paid on purchases of business inputs can be deducted from output GST.

Revenues, expenses and assets are recognised net of the amount of GST except:

(a) where the GST incurred in a purchase of assets or services is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and

(b) receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the combined statements of financial position.

4.13 Provisions

Provisions are recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provisions are reversed. Where the effect of the time of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provisions due to the passage of time is recognised as a finance cost.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.14 Borrowing costs

All borrowing costs are expensed in the year in which they incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

4.15 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching for them and that the grants will be received.

Specifically, government grant which primary condition is that the Group should purchase or acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

4.16 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or asset or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

4.16.1 Operating leases

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

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

4.17 Related parties

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group; or
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) the entity and the Group are members of the same group; or
- (ii) one entity is an associate or joint venture of the other entity; or
- (iii) both entities are joint ventures of the same third party; or
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; or
- (v) the entity is a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group; or

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.17 Related parties (cont'd)

(b) An entity is related to the Group if any of the following conditions applies (cont'd):

(vi) the entity is controlled or jointly-controlled by a person identified in (a) above; or

(vii) a person identified in (a)(i) above has significant influence over the entity or is a member of the key management personnel of the Group or the entity.

(viii) the entity or any member of a group of which it is a part, provides key management personnel services to the entity or the Group.

4.18 Segmental results

4.18.1 Operating segment

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

4.18.2 Intersegment transfer

Segment revenues, expenses and result include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity in negotiated term. These transfers are eliminated on consolidation.

4.19 Earnings per share

(a) **Basic**

Basic earnings per share for the year is calculated by dividing the net profit for the year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue.

(b) **Diluted**

Diluted earnings per share is calculated by dividing the net profit for the year attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Renovation	Plant and machinery	Office furniture and equipment	Motor vehicles	Capital work-in-progress	Total
	RM	RM	RM	RM	RM	RM	RM	RM
Cost								
At 1 July 2014	4,559,685	11,196,406	241,474	13,751,495	1,559,482	1,687,780	-	32,996,322
Additions	-	-	427,304	1,075,203	154,822	311,663	-	1,968,992
Disposals	-	-	-	-	-	(243,174)	-	(243,174)
Exchange differences	-	384,973	-	464,821	47,107	110,946	-	1,007,847
At 30 June 2015	4,559,685	11,581,379	668,778	15,291,519	1,761,411	1,867,215	-	35,729,987
Additions	-	-	-	194,747	17,144	-	-	211,891
Written off	-	-	-	(711,298)	(515,006)	-	-	(1,226,304)
Exchange differences	-	177,074	-	216,057	22,465	56,764	-	472,360
At 30 June 2016	4,559,685	11,758,453	668,778	14,991,025	1,286,014	1,923,979	-	35,187,934
Additions	-	-	-	135,242	208,801	186,314	-	530,357
Written off	-	-	-	(800)	(90)	-	-	(890)
Exchange differences	-	179,813	-	219,400	22,837	57,898	-	479,948
At 30 June 2017	4,559,685	11,938,266	668,778	15,344,867	1,517,562	2,168,191	-	36,197,349
Additions	-	-	-	93,902	56,077	775,946	1,200,560	2,126,485
Written off	-	-	-	-	-	(135,800)	-	(135,800)
Exchange differences	-	(175,703)	-	(214,385)	(23,272)	(68,411)	-	(481,771)
At 30 June 2018	4,559,685	11,762,563	668,778	15,224,384	1,550,367	2,739,926	1,200,560	37,706,263
Accumulated depreciation								
At 1 July 2014	-	1,996,964	4,830	12,021,137	1,175,371	988,051	-	16,186,353
Charge for financial year	-	284,122	13,376	947,742	96,960	234,518	-	1,576,718
Disposals	-	-	-	-	-	(185,506)	-	(185,506)
Exchange differences	-	70,519	-	397,027	37,755	55,770	-	561,071
At 30 June 2015	-	2,351,605	18,206	13,365,906	1,310,086	1,092,833	-	18,138,636
Charge for financial year	-	436,465	13,376	527,316	96,238	220,158	-	1,293,553
Written off	-	-	-	(711,298)	(513,330)	-	-	(1,224,628)
Exchange differences	-	29,643	-	184,190	17,461	26,051	-	257,345
At 30 June 2016	-	2,817,713	31,582	13,366,114	910,455	1,339,042	-	18,464,906
Charge for financial year	-	325,848	13,376	596,635	130,179	230,920	-	1,296,958
Written off	-	-	-	(798)	(90)	-	-	(888)
Exchange differences	-	52,946	-	196,078	19,394	33,965	-	302,383
At 30 June 2017	-	3,196,507	44,958	14,158,029	1,059,938	1,603,927	-	20,063,359
Charge for financial year	-	318,625	13,376	518,741	115,937	242,984	-	1,209,663
Written off	-	-	-	-	-	(108,640)	-	(108,640)
Exchange differences	-	(61,571)	-	(201,659)	(20,476)	(39,720)	-	(323,426)
At 30 June 2018	-	3,453,561	58,334	14,475,111	1,155,399	1,698,551	-	20,840,956
Net carrying amount								
At 30 June 2018	4,559,685	8,309,002	610,444	749,273	394,968	1,041,375	1,200,560	16,865,307
At 30 June 2017	4,559,685	8,741,759	623,820	1,186,838	457,624	564,264	-	16,133,990
At 30 June 2016	4,559,685	8,940,740	637,196	1,624,911	375,559	584,937	-	16,723,028
At 30 June 2015	4,559,685	9,229,774	650,572	1,925,613	451,325	774,382	-	17,591,351

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

A freehold land and building with renovation of the Group amounting to 2015: RM4,448,817, 2016: RM4,387,569 and 2017: RM4,326,322 were pledged to a licensed bank for banking facilities granted to the Group in prior years.

Certain plant and machinery of the Group with the cost and accumulated depreciation of RM1,952,297 and RM1,952,296 respectively were pledged to a licensed bank for banking facilities granted to the Group in prior years.

Included in property, plant and equipment comprise laboratory equipment used for the research and development of the Group's products. The net carrying amount of these assets are 2015: RM646,262, 2016: RM601,852, 2017: RM451,201 and 2018: RM309,743 and depreciation charged during the year amounting to 2015: RM170,002, 2016: RM188,204, 2017: RM190,275 and 2018: RM172,420.

6. LAND USE RIGHTS

	2015 RM	2016 RM	2017 RM	2018 RM
Cost				
At 1 July	410,687	482,567	515,629	7,402,590
Addition	-	-	6,853,387	-
Exchange differences	71,880	33,062	33,574	(442,191)
At 30 June	482,567	515,629	7,402,590	6,960,399
Accumulated amortisation				
At 1 July	88,524	117,782	244,926	276,538
Charge for the financial year	12,625	122,049	15,643	94,849
Exchange differences	16,633	5,095	15,969	(17,415)
At 30 June	117,782	244,926	276,538	353,972
Net carrying amount	364,785	270,703	7,126,052	6,606,427

7. FIXED DEPOSITS WITH LICENSED BANKS

Fixed deposits amounting to 2015: RM6,500 and 2016: RM21,000 were placed under lien with a licensed bank for bank guarantee granted and hence, is not available for general use.

Fixed deposits bear interest of 2015: 3.15%, 2016: 3.15% to 4.30%, 2017: 3.15% to 5.30% and 2018: 5.10% per annum.

8. OTHER RECEIVABLES

	2015 RM	2016 RM	2017 RM	2018 RM
Non-current				
Prepayments – house rental	417,482	319,694	292,997	230,820
Current				
Non-trade receivables	1,015,874	1,569,147	1,113,726	1,398,752
Deposits	134,958	157,658	207,811	161,718
Prepayments	568,402	1,593,734	1,357,286	2,023,622
	1,719,234	3,320,539	2,678,823	3,584,092

9. INVENTORIES

	2015 RM	2016 RM	2017 RM	2018 RM
Raw materials	15,905,515	17,611,133	18,428,118	13,929,799
Packing materials	274,281	365,154	374,070	308,364
Work-in-progress	659,790	549,971	726,605	1,211,824
Finished goods	4,162,720	5,566,303	5,814,164	8,990,273
Goods on consignment	186,650	26,043	-	-
Goods in transit	771,805	808,953	-	376,961
	21,960,761	24,927,557	25,342,957	24,817,221
Inventories recognised in cost of sales	41,408,532	48,593,033	51,180,588	54,771,453

10. TRADE RECEIVABLES

	2015 RM	2016 RM	2017 RM	2018 RM
Trade receivables	12,553,928	12,039,260	13,948,677	16,241,280
Less: Accumulated impairment loss				
At beginning of financial year	752,122	-	105,687	26,355
Impairment loss recognised	-	107,668	-	-
Impairment loss no longer required	(752,122)	-	-	-
Written off	-	-	(84,381)	-
Foreign currency translation differences	-	(1,981)	5,049	-
At end of financial year	-	(105,687)	(26,355)	(26,355)
	12,553,928	11,933,573	13,922,322	16,214,925

The Group's normal trade credit terms range from 2015: 1 to 120 days, 2016: 1 to 120 days, 2017: 1 to 120 days and 2018: 1 to 120 days.

11. SHARE CAPITAL

	2015		2016		2017		2018	
	Unit	RM	Unit	RM	Unit	RM	Unit	RM
Issued ordinary shares:								
At beginning of financial year	1,548,900	1,548,900	1,548,900	1,548,900	1,548,900	1,548,900	22,998,902	22,998,902
Issued during the financial year	-	-	-	-	21,450,002	21,450,002	-	-
At end of financial year	1,548,900	1,548,900	1,548,900	1,548,900	22,998,902	22,998,902	22,998,902	22,998,902

12. BORROWINGS

	2015 RM	2016 RM	2017 RM	2018 RM
Secured:				
Current				
Term loan (1)	289,800	306,388	317,373	-
Term loan (2)	157,718	155,019	157,881	-
	447,518	461,407	475,254	-
Non-current				
Term loan (1)	745,323	438,815	120,303	-
Term loan (2)	393,286	243,980	86,074	-
	1,138,609	682,795	206,377	-
	1,586,127	1,144,202	681,631	-
Repayment terms:				
- not later than 1 year	447,518	461,407	475,254	-
- between 1 to 2 years	461,005	476,380	206,377	-
- between 2 to 5 years	677,604	206,415	-	-
	1,586,127	1,144,202	681,631	-

Term loan (1)

The above facility was secured by the following:

(i) a first fixed charge on the machinery/equipment of the Group;

(ii) a further fixed charge over a freehold land and building with renovation; and

(iii) joint and several personal guarantees by the Directors of the Group.

The repayment terms of the term loan are over 60 monthly instalments of RM28,078 each.

Term loan (2)

The above facility was secured by the following:

(i) a first fixed charge over a freehold land and building with renovation; and

(ii) joint and several personal guarantees by the Directors of the Group.

The repayment terms of the term loan are over 60 monthly instalments of RM13,584 each.

The term loans bore interest ranging from 2015: 2% to 4%, 2016: 2% to 4%, 2017: 2% to 4% and 2018: 2% to 4% per annum.

13. DEFERRED TAX LIABILITIES

	2015 RM	2016 RM	2017 RM	2018 RM
At beginning of the financial year	418,771	599,877	517,381	615,245
Transferred from/(to) profit or loss	181,106	(82,496)	97,864	74,690
At end of the financial year	599,877	517,381	615,245	689,935

The components of deferred tax liabilities are made up of tax effects on temporary differences arising from:

	2015 RM	2016 RM	2017 RM	2018 RM
Carrying amount of qualifying property, plant and equipment in excess of their tax base	719,000	815,000	750,000	804,000
Other	121,000	46,000	85,000	-
Unrealised profits	(240,123)	(343,619)	(219,755)	(114,065)
	599,877	517,381	615,245	689,935

14. DEFERRED INCOME

	2015 RM	2016 RM	2017 RM	2018 RM
Analysed as:				
Current	45,000	45,000	45,000	45,000
Non-current – between 2 to 5 years	210,000	165,000	120,000	75,000
	255,000	210,000	165,000	120,000

This represents a grant received from SME Corporation Malaysia for the purchase of plant and machinery and is recognised as income over the estimated useful life of the plant and machinery concerned at the rate of 15% per annum.

15. TRADE PAYABLES

The normal trade credit terms granted by the trade payables range from 2015: 30 to 90 days, 2016: 30 to 90 days, 2017: 30 to 90 days and 2018: 30 to 90 days and are non-interest bearing.

16. OTHER PAYABLES

	2015 RM	2016 RM	2017 RM	2018 RM
Non-trade payables	21,793,465	21,064,986	3,466,021	604,103
Accruals	341,418	1,110,410	162,157	695,866
Advances received	9,523	5,782	17,601	29,179
	22,144,406	22,181,178	3,645,779	1,329,148

Including in other payables of the Group is 2015: RM21,200,000, 2016: RM20,414,000, 2017 and 2018: Nil due to a company in which certain Directors have interests and dividend payable to a Director amounting to 2017: RM3,100,908 and these amounts are unsecured, interest free and repayable on demand.

17. AMOUNT DUE TO A DIRECTOR

The amount due to a Director is non-trade in nature, unsecured, interest free and repayable on demand.

18. REVENUE

Revenue represents the invoiced value of goods sold, net of discount, returns and GST.

19. PROFIT BEFORE TAXATION

Profit before taxation has been determined after charging/(crediting) amongst other items, the following:

	2015 RM	2016 RM	2017 RM	2018 RM
Net realised (gain)/loss on foreign exchange	(147,420)	(137,478)	(186,349)	137,342
Directors' fees	-	-	-	210,000
Rental of premises	92,820	223,209	93,660	103,330
Rental of land	754	2,533	1,745	819

20. TAXATION

	2015 RM	2016 RM	2017 RM	2018 RM
Current year income tax:				
- Current year provision	2,882,984	3,911,413	4,189,575	3,766,688
- Under/(over) provision in prior year	97,457	-	156,509	(162,555)
Deferred tax:				
- Current year provision	24,106	(48,496)	168,864	162,690
- Under/(over) provision in prior year	157,000	(34,000)	(71,000)	(88,000)
	3,161,547	3,828,917	4,443,948	3,678,823

Provision for taxation is determined by applying the current Malaysian and Vietnamese statutory tax rate of 2015: 25% and 22%, 2016, 2017 and 2018: 24% and 20% respectively on chargeable income.

A reconciliation of income tax expenses applicable to profit before taxation at statutory tax rate and effective tax expense of the Group is as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Profit before taxation	12,640,506	15,517,362	18,996,575	17,098,663
Income tax at Malaysian tax rate of 2015: 25%, 2016, 2017 and 2018: 24%	3,160,127	3,724,167	4,559,178	4,103,679
Tax effects in respect of:				
Expenses not allowable for tax purposes	96,311	350,225	212,821	203,525
Effect of changes in tax rate	-	2,645	-	-
Income not subject to tax	(25,846)	(5,362)	(28,051)	-
Tax effect on reduction in tax rate to 2015: 20%, 2016: 19%, 2017 and 2018: 18% for first RM500,000 of chargeable income	(35,012)	(34,150)	(33,983)	(3,407)
Tax effect of different tax regime	(218,235)	(227,540)	(357,004)	(400,696)
Double deductible expenses	(24,130)	-	-	-
Utilisation of reinvestment allowances	(46,125)	-	-	-
Under/(over) provision in prior year	254,457	(34,000)	85,509	(250,555)
Deferred tax assets not recognised	-	52,932	5,478	26,277
Effective tax expenses	3,161,547	3,828,917	4,443,948	3,678,823

21. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the Group over the weighted average number of ordinary shares in issue during the financial year as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Net profit for the year attributable to ordinary equity holders of the Group	9,478,959	11,688,445	14,552,627	13,419,840
Weighted average number of ordinary shares in issue	1,548,900	1,548,900	12,832,189	22,998,902
Basic earnings per share (sen)	611.98	754.63	113.41	58.35

Diluted earnings per share

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

22. DIVIDENDS

	2015 RM	2016 RM	2017 RM	2018 RM
In respect of the financial year ended 30 June:				
Interim single-tier dividend	21,797,360	5,849,385	5,239,243	-

23. EMPLOYEES BENEFIT EXPENSES

	2015 RM	2016 RM	2017 RM	2018 RM
Salaries, bonus and other emoluments	3,420,070	3,693,076	4,081,567	4,610,576
Social security contributions	23,464	24,012	29,441	55,680
Defined contribution plan	465,111	506,117	576,251	643,226
Directors' remuneration	1,768,445	1,932,921	1,925,079	1,869,618
Other benefits	35,968	104,763	42,891	30,019
	5,713,058	6,260,889	6,655,229	7,209,119

24. RELATED PARTY DISCLOSURES

Significant related party transactions during the financial year are as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Rental charged by a company in which the Directors have interests	84,000	84,000	84,000	84,000

The outstanding balances arising from related party at the reporting date are disclosed in Note 16 to the Financial Information.

The remuneration of key management personnel is the same with Directors' remuneration as disclosed in Note 23 to the Financial Information. The Group has no other member of key management personnel apart from the Board of Directors.

25. COMMITMENTS

(i) Operating lease commitments

The future minimum lease payments under non-cancellable operating lease as at reporting date are as follows:-

	2015 RM	2016 RM	2017 RM	2018 RM
Not later than one year	-	84,000	60,000	84,000
Later than one year but not later than five years	-	60,000	-	60,000
	-	144,000	60,000	144,000

Operating lease commitments represent rental payable for the factory buildings. The lease has an average tenure between 1 to 2 years with renewal option.

(ii) Capital commitments

	2015 RM	2016 RM	2017 RM	2018 RM
Authorised and contracted for:				
- Purchase and installation of machineries and equipment	-	-	-	674,341

26. SEGMENTAL REPORTING – GROUP

For management purposes, the Group is organised into business units based on its products and has 3 reportable segments, as follows:-

Adhesives	-	Developing and manufacturing industrial adhesives, namely water-based and hot melt adhesives.
Sealants	-	Developing and manufacturing industrial sealants, namely water-based and hybrid sealants.
Supporting products and services	-	Supplying industrial adhesives and sealants that are manufactured by other parties for the Group under the Group own brands, chemicals, adhesive repellents and cleaners, spare parts and maintenance services.

The Managing Director monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation. Transfer prices between business segments are established on terms and conditions that are mutually agreed upon.

Business segments

	Note	Adhesives	Sealants	Supporting products and services	Elimination	Combined
		RM	RM	RM	RM	RM
2015						
Revenue:						
External customers		70,145,588	-	3,975,139	(10,493,931)	63,626,796
Results:						
Interest income		45,855	-	-	-	45,855
Interest expenses		(71,767)	-	-	-	(71,767)
Depreciation		(1,413,338)	(163,380)	-	-	(1,576,718)
Amortisation of land use rights		(12,625)	-	-	-	(12,625)
Amortisation of deferred income		45,000	-	-	-	45,000
Taxation		(3,116,872)	-	(153,369)	108,694	(3,161,547)
Other non-cash income	i	56,181	-	-	-	56,181
Segment profit		9,462,513	(163,380)	524,026	(344,200)	9,478,959
Assets:						
Additions to property, plant and equipment		1,148,592	820,400	-	-	1,968,992

26. SEGMENTAL REPORTING – GROUP (CONT'D)

Business segments

	Note	Adhesives RM	Sealants RM	Supporting products and services RM	Elimination RM	Combined RM
2016						
Revenue:						
External customers		82,946,835	145,033	3,787,297	(11,017,321)	75,861,844
Results:						
Interest income		72,012	-	-	-	72,012
Interest expenses		(58,018)	-	-	-	(58,018)
Depreciation		(1,125,764)	(167,789)	-	-	(1,293,553)
Amortisation of land use rights		(122,049)	-	-	-	(122,049)
Amortisation of deferred income		45,000	-	-	-	45,000
Taxation		(3,800,331)	-	(132,082)	103,496	(3,828,917)
Other non-cash expenses	i	(714,879)	-	-	-	(714,879)
Segment profit		11,603,078	(160,160)	573,264	(327,737)	11,688,445
Assets:						
Additions to property, plant and equipment		189,844	22,047	-	-	211,891
2017						
Revenue:						
External customers		89,970,591	275,304	4,912,965	(12,795,010)	82,363,850
Results:						
Interest income		113,219	-	-	-	113,219
Interest expenses		(37,373)	-	-	-	(37,373)
Depreciation		(1,129,169)	(167,789)	-	-	(1,296,958)
Amortisation of land use rights		(15,643)	-	-	-	(15,643)
Amortisation of deferred income		45,000	-	-	-	45,000
Taxation		(4,150,151)	-	(169,933)	(123,864)	(4,443,948)
Other non-cash expenses	i	(36,541)	-	-	-	(36,541)
Segment profit		13,628,598	(144,718)	676,506	392,241	14,552,627
Assets:						
Additions to property, plant and equipment		530,357	-	-	-	530,357
Additions to land use rights		6,853,387	-	-	-	6,853,387

26. SEGMENTAL REPORTING – GROUP (CONT'D)

Business segments (cont'd)

	Note	Adhesives RM	Sealants RM	Supporting products and services RM	Elimination RM	Combined RM
2018						
Revenue:						
External customers		89,840,614	1,938,325	5,872,879	(10,840,537)	86,811,281
Results:						
Interest income		658,582	-	-	(240,302)	418,280
Interest expenses		(249,089)	-	-	240,302	(8,787)
Depreciation		(1,041,452)	(168,211)	-	-	(1,209,663)
Amortisation of land use rights		(94,849)	-	-	-	(94,849)
Amortisation of deferred income		45,000	-	-	-	45,000
Taxation		(3,353,989)	(24,635)	(194,513)	(105,686)	(3,678,823)
Other non-cash expenses	i	(81,086)	-	-	-	(81,086)
Segment profit		12,043,775	78,010	615,958	682,097	13,419,840
Assets:						
Additions to property, plant and equipment		2,112,504	13,981	-	-	2,126,485

Notes to the nature of adjustments and eliminations to arrive at amounts reported in the Combined Financial Information:

i. Other material non-cash income/(expenses) consist of the following items:

	2015 RM	2016 RM	2017 RM	2018 RM
Bad debts written off	(752,122)	(588,715)	(36,539)	-
Gain on disposal of property, plant and equipment	53,330	-	-	-
Provision for doubtful debts	-	(107,668)	-	-
Property, plant and equipment written off	-	(1,676)	(2)	(27,160)
Reversal of provision for doubtful debts	752,122	-	-	-
Reversal of provision for unutilised annual leave	2,851	21,448	-	-
Written off of slow moving inventories	-	(38,268)	-	(53,926)
	56,181	(714,879)	(36,541)	(81,086)

26. SEGMENTAL REPORTING – GROUP (CONT'D)

Geographical segments

The Group operates in Malaysia and Vietnam. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The following table provides an analysis of the Group's revenue by geographical segment:

	2015 RM	2016 RM	2017 RM	2018 RM
Revenue from external customers				
Malaysia	13,681,903	13,932,084	15,238,276	17,683,490
Vietnam	36,175,412	43,344,082	46,521,551	47,343,465
Indonesia	6,583,690	9,938,963	9,495,311	10,126,681
China	4,252,410	3,846,392	5,542,809	5,989,578
Others	2,933,381	4,800,323	5,565,903	5,668,067
	63,626,796	75,861,844	82,363,850	86,811,281

Major customers

The followings are the major customers with revenue equal or more than 10% of the Group's revenue:

	Revenue			
	2015 RM	2016 RM	2017 RM	2018 RM
- Customer A	6,583,690	9,938,963	9,495,311	10,126,681

27. FINANCIAL INSTRUMENTS

27.1 Financial risk management

The Group is exposed to financial risks arising from its operations and the use of financial instruments. Financial risk management policies are established to ensure that adequate resources are available for the development of the Group's business whilst managing its risks. The Group operates within clearly defined policies and procedures that are approved by the Board of Directors to ensure the effectiveness of the risk management process.

The main areas of financial risks faced by the Group and the policies in respect of the major areas of treasury activity are set out as follows:

(a) Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

It is the Group's policy to enter into financial instrument with a diversity of creditworthy counterparties. The Group does not expect to incur material credit losses of its financial assets or other financial instruments.

27. FINANCIAL INSTRUMENTS (CONT'D)

27.1 Financial risk management (cont'd)

(a) Credit risk (cont'd)

Concentration of credit risk exists when changes in economic, industry and geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instrument is broadly diversified and transactions are entered into with diverse creditworthy counterparties, thereby mitigate any significant concentration of credit risk.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group does not offer credit terms without the approval from the head of credit control.

Following are the areas where the Group is exposed to credit risk:

Receivables

As at the end of the reporting year, the maximum exposure to credit risk arising from receivables is limited to the carrying amounts as stated in the combined statements of financial position.

With a credit policy in place to ensure the credit risk is monitored on an ongoing basis, management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses aging analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than credit terms granted are deemed to have higher credit risk, and are monitored individually.

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

As at the reporting date, trade receivables of 2015: RM3,595,806, 2016: RM2,803,206, 2017: RM4,232,176 and 2018: RM5,680,382 were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default.

The ageing analysis of trade receivables is as follows:

	Gross RM	Individually impaired RM	Net RM
2015			
Not past due	8,958,122	-	8,958,122
Past due 1 - 30 days	2,266,327	-	2,266,327
Past due 31 - 60 days	531,366	-	531,366
Past due more than 60 days	798,113	-	798,113
	12,553,928	-	12,553,928
2016			
Not past due	9,130,367	-	9,130,367
Past due 1 - 30 days	1,593,971	-	1,593,971
Past due 31 - 60 days	478,111	-	478,111
Past due more than 60 days	836,811	(105,687)	731,124
	12,039,260	(105,687)	11,933,573

27. FINANCIAL INSTRUMENTS (CONT'D)

27.1 Financial risk management (cont'd)

(a) Credit risk (cont'd)

Following are the areas where the Group is exposed to credit risk (cont'd):

Receivables (cont'd)

The ageing analysis of trade receivables is as follows (cont'd):

2017	Gross RM	Individually impaired RM	Net RM
Not past due	9,690,146	-	9,690,146
Past due 1 - 30 days	2,728,423	-	2,728,423
Past due 31 - 60 days	759,063	-	759,063
Past due more than 60 days	771,045	(26,355)	744,690
	13,948,677	(26,355)	13,922,322
2018			
Not past due	10,534,543	-	10,534,543
Past due 1 - 30 days	3,925,156	-	3,925,156
Past due 31 - 60 days	774,172	-	774,172
Past due more than 60 days	1,007,409	(26,355)	981,054
	16,241,280	(26,355)	16,214,925

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various backgrounds. Based on historical information about customer's default rates, the management considers the credit quality of trade receivables that are not past due or impaired to be good.

The net carrying amount of trade receivables is considered a reasonable approximation of fair value. The maximum exposure to credit risk is the carrying value of each class of receivables mentioned above.

Cash and cash equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due, due to shortage of funds.

27. FINANCIAL INSTRUMENTS (CONT'D)

27.1 Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

In managing its exposures to liquidity risk which arises principally from its various payables, the Group maintains a level of cash and cash equivalents deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as and when they fall due.

The Group aims to maintain a balance of sufficient cash and deposits and flexibility in funding by keeping diverse sources of committed and uncommitted credit facilities from various banks.

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below:

	Carrying amount RM	Contractual cash flow RM	Less than 1 year RM	Between 1 to 2 years RM	Between 2 to 5 years RM
2015					
Secured					
Borrowings	1,586,127	1,750,363	505,492	499,944	744,927
Unsecured					
Trade payables	3,007,437	3,007,437	3,007,437	-	-
Other payables	22,144,406	22,144,406	22,144,406	-	-
Amount due to a Director	700,000	700,000	700,000	-	-
	25,851,843	25,851,843	25,851,843	-	-
Total	27,437,970	27,602,206	26,357,335	499,944	744,927
2016					
Secured					
Borrowings	1,144,202	1,244,871	499,944	499,944	244,983
Unsecured					
Trade payables	3,330,573	3,330,573	3,330,573	-	-
Other payables	22,181,178	22,181,178	22,181,178	-	-
	25,511,751	25,511,751	25,511,751	-	-
Total	26,655,953	26,756,622	26,011,695	499,944	244,983

27. FINANCIAL INSTRUMENTS (CONT'D)

27.1 Financial risk management (cont'd)

(b) Liquidity risk (cont'd)

The summary of the maturity profile based on contractual undiscounted repayment obligations are as below (cont'd):

	Carrying amount RM	Contractual cash flow RM	Less than 1 year RM	Between 1 to 2 years RM	Between 2 to 5 years RM
2017					
Secured					
Borrowings	681,631	744,927	499,944	244,983	-
Unsecured					
Trade payables	3,880,423	3,880,423	3,880,423	-	-
Other payables	3,645,779	3,645,779	3,645,779	-	-
	7,526,202	7,526,202	7,526,202	-	-
Total	8,207,833	8,271,129	8,026,146	244,983	-
2018					
Unsecured					
Trade payables	8,421,376	8,421,376	8,421,376	-	-
Other payables	1,329,148	1,329,148	1,329,148	-	-
	9,750,524	9,750,524	9,750,524	-	-
Total	9,750,524	9,750,524	9,750,524	-	-

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's fixed rate instrument is exposed to a risk of change in its fair value due to changes in interest rates.

The Group's interest rate management objective is to manage the interest expenses consistent with maintaining an acceptable level of exposure to interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and floating debts based on assessment of its existing exposure and desired interest rate profile.

27. FINANCIAL INSTRUMENTS (CONT'D)

27.1 Financial risk management (cont'd)

(c) Interest rate risk (cont'd)

	2015 RM	2016 RM	2017 RM	2018 RM
Fixed rate instruments				
Fixed deposits with licensed banks	2,180,178	1,523,673	6,361,303	10,835,245
Borrowings	(1,586,127)	(1,144,202)	(681,631)	-
	594,051	379,471	5,679,672	10,835,245

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates as at reporting date would not affect profit or loss.

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this are primarily United States Dollar ("USD") and Vietnamese Dong ("VND").

Carrying amounts of the Group's exposure to foreign currency risk are as follows:

	2015 RM	2016 RM	2017 RM	2018 RM
Denominated in USD				
Cash and bank balances	3,057,733	5,568,130	7,562,047	8,703,566
Trade receivables	3,091,829	1,442,346	1,826,402	3,759,357
Trade payables	(1,024,307)	(1,475,117)	(621,708)	(3,256,357)
Other receivables	-	186,300	205,717	180,500
	5,125,255	5,721,659	8,972,458	9,387,066

27. FINANCIAL INSTRUMENTS (CONT'D)

27.1 Financial risk management (cont'd)

(d) Foreign currency risk (cont'd)

Carrying amounts of the Group's exposure to foreign currency risk are as follows (cont'd):

	2015 RM	2016 RM	2017 RM	2018 RM
Denominated in VND				
Cash and bank balances	1,741,379	2,311,894	2,910,257	4,086,986
Fixed deposits with licensed banks	2,173,678	1,502,673	6,361,303	10,835,245
Trade receivables	7,567,604	7,716,400	9,484,630	9,244,785
Trade payables	-	-	(325,700)	(676,185)
Other receivables	304,300	632,861	1,191,718	1,077,179
Other payables	(13,251)	(193,452)	(3,205,733)	(2,734)
Tax payable	(1,226,466)	(1,480,105)	(1,068,536)	(576,159)
	10,547,244	10,490,271	15,347,939	23,989,117

Exposures to foreign exchange rates vary during the financial year depending on the volume of overseas transactions.

As at the reporting date, the management of the Group determined the effects of sensitivity of the Group's net profit for the financial year to reasonable possible changes in USD and VND to be immaterial.

27.2 Fair value of financial instruments

The carrying amounts of financial assets and liabilities of the Group at the reporting date approximate their fair values due to their short-term nature and insignificant impact of discounting.

27.3 Fair value hierarchy

No fair value hierarchy has been disclosed as the Group does not have financial instruments measured at fair value.

27.4 Reconciliation of liabilities arise from financing liabilities

	At 1.7.2017 RM	Repayment RM	At 30.06.2018 RM
Borrowings	681,631	(681,631)	-

28. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, sell assets to reduce debts or issue new shares.

There were no changes in the Group's approach to capital management during the financial year.

29. SIGNIFICANT EVENTS DURING THE FINANCIAL YEARS

(a) Techbond Manufacturing Sdn. Bhd. had entered into a Sale and Purchase Agreement dated June 9, 2015 ("SPA") and a Supplemental Agreement dated June 22, 2015 ("Supplemental SPA") with LST Realty Sdn. Bhd. ("LST") for the sale of the Subject Property to LST ("Property Disposal Transaction") at a total consideration of RM20,000,000.

However, the Property Disposal Transaction is void and unenforceable pursuant to Section 132E of the Companies Act, 1965 due to the respective directors' and members' circular resolutions of Techbond Manufacturing Sdn. Bhd. and LST in relation to the SPA and Supplemental SPA ("Resolutions") were passed without the directors, substantial shareholders and persons connected with such directors and substantial shareholders ("Interested Parties") abstaining from voting on the Resolutions. As none of the Interested Parties abstained from voting on the Resolutions and no other director or shareholder voted in favour of the Resolutions, the Resolutions were therefore ineffective. Accordingly, the SPA and Supplemental SPA would be void under Section 132E of the Companies Act, 1965.

In view of the above, Techbond Manufacturing Sdn. Bhd. and LST had duly rectified the circumstance by appointing independent directors for both Techbond Manufacturing Sdn. Bhd. and LST and restoring both companies' position as though the SPA and Supplemental SPA were never entered into in the first instance, via a Rectification Agreement entered into between Techbond Manufacturing Sdn. Bhd. and LST on 5 September 2016 ("Rectification Agreement"). As such, the Financial Information have been restated as a result.

(b) On 20 November 2017, Techbond Group Sdn. Bhd. was converted from a private limited company to a public limited company and assumed its current name as Techbond Group Berhad ("Techbond").

(c) On 20 December 2017, Techbond entered into Share Sale Agreement with Techbond Manufacturing Sdn. Bhd., Techbond International Sdn. Bhd. and Techbond (Sabah) Sdn. Bhd. and Capital Transfer Agreement with Techbond (Vietnam) Co., Ltd..

(d) On 21 March 2018, Public Investment Bank Berhad on behalf of the Board of Directors of Techbond submitted an application to the Securities Commision Malaysia ("SC") for the proposed admission of Techbond to the Official List and the listing of and the quotation for entire enlarged issued and paid-up share capital of Techbond' shares on the Main Market of Bursa Malaysia Securities Berhad.

30. SIGNIFICANT EVENTS AFTER THE REPORTING YEAR

(a) On 5 July 2018, SC approved the said application as mentioned in Note 29(d) to the Financial Statements.

(b) On 10 August 2018, Techbond has authorised to allot and issue a total of 169,894,998 new Techbond shares at purchase price of RM0.60 per share to the vendors of Techbond Manufacturing Sdn. Bhd., Techbond International Sdn. Bhd., Techbond (Sabah) Sdn. Bhd. and Techbond (Vietnam) Co., Ltd..

(c) On 3 September 2018, Techbond had completed the acquisition of 100% equity interest in Techbond Manufacturing Sdn. Bhd., Techbond International Sdn. Bhd. and Techbond (Sabah) Sdn. Bhd. for a total purchase consideration of RM73,363,634 with issuance of 122,272,724 new ordinary shares in Techbond at RM0.60 per share.

(d) On 7 September 2018, Techbond had completed the acquisition of 100% equity interest in Techbond (Vietnam) Co., Ltd. for a total purchase consideration of RM28,573,365 with issuance of 47,622,274 new ordinary shares in Techbond at RM0.60 per share.

HENRY BUTCHER MALAYSIA
International Asset Consultants

Our Ref: HB/SEL/8816/06/0684/Derr – 001

The Board of Directors
M/S TECHBOND MANUFACTURING SDN BHD
No. 36, Jalan Anggerik Mokara 31/59
Kota Kemuning, Seksyen 31
40460 Shah Alam
Selangor Darul Ehsan

23 FEB 2018

Dear Sirs

CERTIFICATE OF VALUATION OF A FACTORY COMPLEX KNOWN AS NO. 32, JALAN ANGGERIK MOKARA 31/59, KOTA KEMUNING, SEKSYEN 31, 40460 SHAH ALAM, SELANGOR DARUL EHSAN ("SUBJECT PROPERTY")

We were instructed by Techbond Manufacturing Sdn Bhd ("Techbond Manufacturing") to conduct a valuation of the Subject Property. The full details of the valuation are included in our Valuation Report bearing reference no. HB/SEL/8816/06/0684/Derr – 001 dated February 23, 2018.

This certificate has been prepared for inclusion in the Prospectus of Techbond Group Berhad in conjunction with the listing of Techbond Group Berhad on the Main Market of Bursa Malaysia Securities Berhad ("Listing").

The Subject Property was inspected and referenced on December 28, 2017. The relevant date of valuation for this valuation exercise coincides with the date of inspection, i.e. December 28, 2017.

The valuation had been carried out in accordance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The basis of valuation is the Market Value which is defined by the Malaysian Valuation Standards to be "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The brief description of the Subject Property and our opinion of the current Market Value are as follows: -

HENRY BUTCHER MALAYSIA (SEL) Sdn Bhd (495503-K)
No. 36-1, 2 & 3, Jalan SS 15/4D, 47500 Subang Jaya, Selangor, Malaysia.
t • +603-5631 5555 f • +603-5632 7155 e • selangor@henrybutcher.com.my w • www.henrybutcher.com.my

Property Description

Property Type/ Interests Valued	An individual-designed factory complex.
Address of the Subject Property	No. 32, Jalan Anggerik Mokara 31/59, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor Darul Ehsan.
Location	The Subject Property is located along Jalan Anggerik Mokara 31/59, within Kota Kemuning, Seksyen 31, Shah Alam which is about 15 kilometres due south of Shah Alam City Centre. It is easily accessible from Kuala Lumpur City Centre via the Kuala Lumpur-Shah Alam Expressway ("KESAS Expressway") heading towards Pulau Indah, Port Klang, thence exiting at the Kota Kemuning Interchange followed by Persiaran Kota Kemuning, Persiaran Anggerik Mokara, Persiaran Anggerik Aranda, Persiaran Anggerik Eria and finally a left turn onto Jalan Anggerik Mokara 31/59 leading to the Subject Property.
Site	The land is near rectangular in shape encompassing a surveyed land area of 1.1649 acres (or 50,743 square feet). The physical terrain of the land is generally flat and lies about the level of the frontage road.
Age of Building	7 years (from the date of the Certificate of Completion and Compliance ("CCC") which was issued in year 2010).
Building Description	The building erected thereon comprises main buildings (a three storey office building cum a single storey factory annexed) and ancillary buildings (a refuse chamber and a guardhouse). The office building is constructed of reinforced concrete framework with plastered infill brickwalls covered with a reinforced concrete flat roof with water-proofing membranes. The approximate gross floor area of the building is estimated at 7,210 square feet. The factory is constructed of steel structure with partly plastered brickwalls incorporated with aluminium framed adjustable glass louvres windows and partly metal deck covered with a pitched non-reflective colourbond metal deck roof insulated with double sided aluminium foil on steel trusses. The height to eaves and to ridges of the factory is approximately 29.5 feet and 37.2 feet respectively. The factory has a span of about 80 feet. The total gross floor area of the factory is estimated at 23,195 square feet. The ancillary buildings which include a refuse chamber and a guardhouse are constructed of reinforced concrete framework with plastered infill brickwalls supporting a pitched cement tiles roof on timber rafters and trusses. These ancillary buildings have a total built-up area of 202 square feet.

Existing Use and Occupancy of the Subject Property	We noted during our inspection that the Subject Property was owner occupied.

Title Particulars

Title No.	HSD 54950, PT 56369, Mukim of Klang, District of Klang, State of Selangor
Tenure	Term In Perpetuity
Category of land use	"Perusahaan"
Surveyed Land Area	4,714 square metres
Registered Owner	Techbond Manufacturing Sdn Bhd

Planning Approvals

Planning Approval	The Subject Property is situated within an area designated for industrial purposes.
Date of Certificate of Fitness for Occupation	The above buildings have been issued with a CCC by Ir Tan Kian Soon (LAM/LJM Registration No.: 12477(CIVIL)) on December 22, 2010.

We noted during our inspection on December 28, 2017 that temporary awnings have been constructed at both side of the single storey factory ("Structure") and the Structure did not form part of the above approved building plans.

However, a Temporary Permit pertaining to the above Structure has been obtained from MBSA for a period from December 14, 2017 to December 13, 2018.

For the purpose of this valuation, we were specifically instructed by Techbond Manufacturing to exclude the Structure in arriving at the market value of the Subject Property as Techbond Manufacturing was of the view that the Structure would not increase the value of the Subject Property significantly. Hence, we have taken the request into consideration and are of the view that the value attributed by the Structure is not significant.

We have adopted the **"Cost Approach"** and the **"Investment Method"** in formulating our opinion of the current **Market Value** of the Subject Property.

Cost Approach

The **"Cost Approach"** is a valuation method, which is based on an estimate of the current Market Value of land for its existing use, plus the current gross replacement cost of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

In arriving at our opinion of value, we have taken into consideration amongst others, the following transactions which extracted from Department of Property Valuation and Services (JPPH): -

	Comparable 1	**Comparable 2**	**Comparable 3**
Property	5, Jalan Anggerik Mokara 31/48, Kota Kemuning	22A, Jalan Anggerik Mokara 31/47, Kota Kemuning	3, Jalan Anggerik Mokara 31/48, Kota Kemuning
Land Area	1.0001 acres (43,564 square feet)	1.0307 acres (44,897 square feet)	1.0001 acres (43,564 square feet)
Type	Individual-designed factory complex	Individual-designed factory complex	Individual-designed factory complex
Gross Built-up Area	45,182 square feet	20,594 square feet	30,000 square feet
Tenure	Freehold	Freehold	Freehold
Date of Transaction	November 19, 2015	April 6, 2016	September 1, 2015
Consideration	RM14,200,000.00	RM11,000,000.00	RM11,720,000.00
Building Cost	RM150.00 per square foot	RM150.00 per square foot	RM150.00 per square foot
Building Depreciation	20%	26%	24%
Land Value	RM201.50 per square foot	RM194.09 per square foot	RM190.52 per square foot
Remarks on Adj. Value	Nil		
Adjusted Land Value	RM201.50 per square foot	RM194.09 per square foot	RM190.52 per square foot

Note:

1. References to other contractors revealed that the current construction cost of similar building was in the range of RM140.00 per square foot to RM170.00 per square foot. Based on the JUBM & Arcadis Construction Cost Handbook 2017, the construction cost for a single storey conventional factory of structural steelwork ranges between RM122.63 per square foot to RM154.21 per square foot. We have incorporated the factors of building specifications such as floor finishes, eaves height, roof, floor loading capacity etc. in the adjustment. We have also taking into consideration the adjustment on the time factor and the renovation cost occurred to upgrade the subject building. Therefore, it is in our opinion that after the adjustment, the construction cost before depreciation for the building of RM150.00 per square foot was adopted.
2. There is no adjustment made to all three (3) comparables as the comparables are located within Kota Kemuning and are having almost similar land size.
3. We have adopted RM195.00 per square foot for the valuation calculation based on the facts that we are in our opinion that the Comparable 2 is the best evidence as it is transacted nearest to the date of valuation of the Subject Property and can reflect the current market condition of industrial property in Kota Kemuning.

Investment Method

In **"Investment Method"**, the capital value is derived from an estimate of the Market Rental, which the Subject Property can reasonably be let for. Outgoings, such as property tax, repairs and maintenance, insurance and management are then deducted from the annual rental income. The net annum rental income is capitalised at an appropriate current market yield to arrive at its indicative capital value.

We noted that there is no concluded rental in the Department of Property Valuation and Services (JPPH) record. However, our verbal checking with the local real estate agents revealed that the asking rentals of individual-designed factory / warehouse complexes located within Kota Kemuning are in the range of RM1.50 per square foot to RM1.80 per square foot. We have adopted the following parameters for the Investment Method:-

<table>
<tr><th>Item</th><th>Amount</th><th>Remarks</th></tr>
<tr><td>Rental</td><td>RM1.50 per square foot</td><td>The asking rental was about RM1.60 per square foot. An allowance of RM0.10 per square foot or about 6% is allocated for negotiation</td></tr>
<tr><td>Void</td><td>10%</td><td>We have allocated a void factor of 10% to accommodate the vacant and/or rent free period during the transition of exchanging tenant.</td></tr>
<tr><td>Outgoing</td><td>11%</td><td>The actual annual outgoings of the Subject Property for the past 3 years is RM48,237.22 (or 8.81%), RM54,410.66 (or 9.94%) and RM55,272.22 (or 10.10%) for the financial year ended 2015, 2016 and 2017 respectively. We had adopted 11% from the total estimated annual rental in the calculation of outgoing to accommodate for other unexpected cost.</td></tr>
<tr><td>Capitalization Rate</td><td>3.5%</td><td>The following data were referred for the estimation of yield.
<table>
<tr><th>Property</th><th>Consideration / Date of Transaction</th><th>Monthly Asking Rental</th><th>Net Yield</th></tr>
<tr><td>Jalan 31/59, Kota Kemuning</td><td>RM14,200,000 / November 19, 2015</td><td>RM 67,773.00</td><td>4.58%</td></tr>
<tr><td>Jalan 31/47, Kota Kemuning</td><td>RM11,000,000 / April 6, 2016</td><td>RM30,891.00</td><td>2.70%</td></tr>
<tr><td>Jalan 31/48, Kota Kemuning</td><td>RM11,720,000 / September 1, 2015</td><td>RM45,000.00</td><td>3.69%</td></tr>
</table>
Our in-house research revealed that the outgoing for a factory complex in this region is about 9% to 13%, depending on the efficiencies of the management of the factory owner. Therefore, we have adopted a 10% for outgoing in analysing the net yield for each comparable property. We have also allocated a void factor of 10% for each comparable property.
The analysis of the above data shows that the net yields are ranged from 2.70% to 4.58%. We are in the opinion that the Subject Property is located at a more preferred / established area in Klang Valley, therefore, the net yield of 3.50 %, after taking into consideration of void and outgoing factors, is adopted. </td></tr>
</table>

The value summary from both methods of valuation and the reconciliation rationale are as follows:-

Cost Approach	**RM14,000,000.00**
Investment Method	**RM12,400,000.00**

<u>Conclusion</u>

In this valuation, we have adopted figures derived from the **Cost Approach** and used the **Investment Method** as a cross check method.

This is due to the fact that the **Investment Method** involves the conversion of an income flow from property into an appropriate capital sum. The assessment of a rental value is therefore an important process and a reasonably accurate estimate is therefore vital. The lack of concluded rental evidences have resulted us to depend on asking rental to arrive at the notional income flow. Hence, these factors reduce the accuracy of the **Investment Method** as compared to the **Cost Approach** in terms of the value in this exercise.

We are in our opinion that the **Cost Approach** is a more appropriate method as this approach is referring to the current construction cost that required to built a similar building less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

Taking into consideration all the relevant factors, we are of the opinion that the current **Market Value** of the unencumbered interest in the Subject Property in its existing physical condition and with the benefit of vacant possession is: -

Market Value - RM14,000,000.00 (Ringgit Malaysia: Fourteen Million Only)

Yours faithfully,
HENRY BUTCHER MALAYSIA (SEL) SDN. BHD.

Sr TEW KOK HUAT
B.Surv., MRIS(M), APEPS
Registered Valuer (V-481)

Henry Butcher Malaysia Sdn. Bhd. ("HBM"), a member of GoIndustry DoveBid (previously Henry Butcher & Co) and established in Malaysia in 1987, has an extensive network of 25 offices throughout Malaysia, supported by more than 900 trained and professional staff. HBM has also expanded to other part of ASEAN through equity participation in an asset management company in Thailand, a full office in Cambodia and cooperation with associates in Indonesia, Singapore, Hong Kong and the United Kingdom.

HBM offers consultancy services in both the real estate and plant and machinery sectors covering areas of expertise such as valuation, real estate agency, investment advisory, international marketing, market research, development consultancy, project marketing, asset management, retail planning, design, leasing and management, tenders and auctions. HBM is on the panel of major international and Malaysian financial institutions and services both public listed and privately owned companies, multinationals, government linked companies, institutions as well as private investors with diverse business interests such as property development and investment, plantations, manufacturing, banking and financial services, construction, accounting and corporate services, telecommunications and others within as well as outside Malaysia.

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Sr Tew Kok Huat holds a Bachelor Degree in Valuation & Property Management from University of Technology, Malaysia. He started his trading business in 1993 and joined HBM in 1995. After obtaining his registration as a Registered Valuer in 1998, he had been promoted to a director of Henry Butcher Malaysia (Sel) Sdn Bhd in 1999. He is a member of the Royal Institution of Surveyors Malaysia and Association of Valuers and Property Consultants in Private Practice Malaysia and a registered valuer and estate agent. He has vast exposure in matters relating to the real estate industry and has extensive professional experience related to valuation, estate agency, project marketing, compulsory land acquisition, feasibility studies, market research and corporate works over more than 20 years in HBM.

HENRY BUTCHER MALAYSIA
International Asset Consultants

Our Ref: HB/SEL/8816/06/0708/Derr – 002

The Board of Directors
M/S TECHBOND MANUFACTURING SDN BHD
No. 36, Jalan Anggerik Mokara 31/59
Kota Kemuning, Seksyen 31
40460 Shah Alam
Selangor Darul Ehsan

23 FEB 2018

Dear Sirs

CERTIFICATE OF VALUATION OF A FACTORY COMPLEX KNOWN AS NO. 34 & 36, JALAN ANGGERIK MOKARA 31/59, KOTA KEMUNING, SEKSYEN 31, 40460 SHAH ALAM, SELANGOR DARUL EHSAN ("SUBJECT PROPERTY")

We were instructed by Techbond Manufacturing Sdn Bhd ("Techbond Manufacturing") to conduct a valuation of the Subject Property. The full details of the valuation are included in our Valuation Report bearing reference no. HB/SEL/8816/06/0708/Derr – 002 dated February 23, 2018.

This certificate has been prepared for inclusion in the Prospectus of Techbond Group Berhad in conjunction with the listing of Techbond Group Berhad on the Main Market of Bursa Malaysia Securities Berhad ("Listing").

The Subject Property was inspected and referenced on December 28, 2017. The relevant date of valuation for this valuation exercise coincides with the date of inspection, i.e. December 28, 2017.

The valuation had been carried out in accordance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The basis of valuation is the Market Value which is defined by the Malaysian Valuation Standards to be "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The brief description of the Subject Property and our opinion of the current Market Value are as follows: -

HENRY BUTCHER MALAYSIA (SEL) Sdn Bhd (495503-K)
No. 36-1, 2 & 3, Jalan SS 15/4D, 47500 Subang Jaya, Selangor, Malaysia.
t • +603-5631 5555 f • +603-5632 7155 e • selangor@henrybutcher.com.my w • **www.henrybutcher.com.my**

Property Description

Property Type/ Interests Valued	An individual-designed factory complex.
Address of the Subject Property	No. 34 & 36, Jalan Anggerik Mokara 31/59, Kota Kemuning, Seksyen 31, 40460 Shah Alam, Selangor Darul Ehsan.
Location	The Subject Property is located along Jalan Anggerik Mokara 31/59, within Kota Kemuning, Seksyen 31, Shah Alam which is about 15 kilometres due south of Shah Alam City Centre. It is easily accessible from Kuala Lumpur City Centre via the Kuala Lumpur-Shah Alam Expressway ("KESAS Expressway") heading towards Pulau Indah, Port Klang, thence exiting at the Kota Kemuning Interchange followed by Persiaran Kota Kemuning, Persiaran Anggerik Mokara, Persiaran Anggerik Aranda, Persiaran Anggerik Eria and finally a left turn onto Jalan Anggerik Mokara 31/59 leading to the Subject Property.
Site	The land is near trapezoidal in shape encompassing a surveyed land area of 2.5868 acres (or 112,680 square feet). The physical terrain of the land is generally flat and lies about the level of the frontage road.
Age of Building	9 years to 17 years (from the date of the Certificate of Fitness for Occupations ("CF"s) which were issued in year 2000 and 2008 respectively).
Building Description	The building erected thereon comprises main buildings (a three storey office building, a double storey office building, a single storey factory annexed) and ancillary buildings (a pump house, two refuse chambers and two guardhouses). The office buildings are constructed of reinforced concrete framework with plastered infill brickwalls covered with a reinforced concrete flat roof with water-proofing membranes / pitched non-reflective colourbond metal deck roof insulated with double sided aluminium foil on steel trusses. The total approximate gross floor area of the buildings is estimated at 12,582 square feet. The factory is constructed of steel structure with partly plastered brickwalls incorporated with aluminium framed adjustable glass louvres windows and partly metal deck incorporated with transparent acrylic sheets covered with a pitched non-reflective colourbond metal deck roof insulated with double sided aluminium foil on steel trusses. The height to eaves and to ridges of the factory is approximately 30.0 feet and 38.7 feet respectively. The factory has a span of about 80 feet to 142 feet. The total gross floor area of the factory is estimated at 59,977 square feet. The ancillary buildings which include a pump house, two refuse chambers and two guardhouses are constructed of reinforced concrete framework with plastered infill brickwalls supporting with either a reinforced concrete flat roof or pitched cement tiles roof on timber rafters and trusses. These ancillary buildings have a total built-up area of 550 square feet.

Existing Use and Occupancy of the Subject Property	We noted during our inspection that the Subject Property was owner occupied except for a room, measuring about 80 square feet, located at second floor of No, 36, Jalan Anggerik Mokara 31/59, Kota Kemuning has been tenanted to LST Realty Sdn Bhd.

Title Particulars

Originally, the Subject Property was erected thereon two (2) adjoining parcels of vacant industrial land held under title nos. HSD 54951 & HSD 54952, lot nos. PT 56370 & PT 56371 respectively, both under Mukim Klang, District Klang, State of Selangor.

Techbond Manufacturing has on September 18, 2001 applied to amalgamate the both lands. Klang District / Land Office had approved the above application on October 29, 2002 and followed by a new amalgamated title held under title no HSD 119515, lot no. PT 98130, Mukim Klang, District Klang, State of Selangor has been registered on November 27, 2006 .

Title No.	HSD 119515, PT 98130, Mukim of Klang, District of Klang, State of Selangor
Tenure	Term In Perpetuity
Category of land use	"Perusahaan"
Surveyed Land Area	10,468 square metres
Registered Owner	Techbond Manufacturing Sdn Bhd

Planning Approvals

Planning Approval	The Subject Property is situated within an area designated for industrial purposes.
Date of Certificate of Fitness for Occupation	The above buildings have been issued with two CFs by Majlis Bandaraya Shah Alam ("MBSA") on November 28, 2000 and March 6, 2008.

We noted during our inspection on December 28, 2017 that a metal deck roof over water treatment plant and temporary awnings at both side and rear part of the single storey factory has been constructed ("Structures") and the Structures did not form part of the above approved building plans.

However, a Temporary Permit pertaining to the above Structures has been obtained from MBSA for a period from August 21, 2017 to August 20, 2018.

For the purpose of this valuation, we were specifically instructed by Techbond Manufacturing to exclude the Structures in arriving at the market value of the Subject Property as Techbond Manufacturing was of the view that the Structures would not increase the value of the Subject Property significantly. Hence, we have taken the request into consideration and are of the view that the value attributed by the Structures is not significant.

We have adopted the **"Cost Approach"** and the **"Investment Method"** in formulating our opinion of the current **Market Value** of the Subject Property.

Cost Approach

The "**Cost Approach**" is a valuation method, which is based on an estimate of the current Market Value of land for its existing use, plus the current gross replacement cost of improvements less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

In arriving at our opinion of value, we have taken into consideration amongst others, the following transactions which extracted from Department of Property Valuation and Services (JPPH): -

	Comparable 1	Comparable 2	Comparable 3
Property	5, Jalan Anggerik Mokara 31/48, Kota Kemuning	22A, Jalan Anggerik Mokara 31/47, Kota Kemuning	3, Jalan Anggerik Mokara 31/48, Kota Kemuning
Land Area	1.0001 acres (43,564 square feet)	1.0307 acres (44,897 square feet)	1.0001 acres (43,564 square feet)
Type	Individual-designed factory complex	Individual-designed factory complex	Individual-designed factory complex
Gross Built-up Area	45,182 square feet	20,594 square feet	30,000 square feet
Tenure	Freehold	Freehold	Freehold
Date of Transaction	November 19, 2015	April 6, 2016	September 1, 2015
Consideration	RM14,200,000.00	RM11,000,000.00	RM11,720,000.00
Building Cost	RM150.00 per square foot	RM150.00 per square foot	RM150.00 per square foot
Building Depreciation	20%	26%	24%
Land Value	RM201.50 per square foot	RM194.09 per square foot	RM190.52 per square foot
Remarks on Adj. Value	Adjustment made on size factor		
Adjusted Land Value	RM181.35 per square foot	RM174.68 per square foot	RM171.47 per square foot

Note:

1. References to other contractors revealed that the current construction cost of similar building was in the range of RM140.00 per square foot to RM180.00 per square foot. Based on the JUBM & Arcadis Construction Cost Handbook 2017, the construction cost for a single storey conventional factory of structural steelwork ranges between RM122.63 per square foot to RM154.21 per square foot. We have incorporated the factors of building specifications such as floor finishes, eaves height, roof, floor loading capacity etc. in the adjustment. We have also taking into consideration the adjustment on the time factor and the renovation cost occurred to upgrade the subject building. Therefore, it is in our opinion that after the adjustment, the construction cost before depreciation for the building of RM150.00 per square foot was adopted.
2. Adjustment on land size has been made to all three (3) comparables as the comparables are having land area of almost 1 acre each whist the Subject Property is having a land area of 2.5868 acres.
3. We have adopted RM175.00 per square foot for the valuation calculation based on the facts that we are in our opinion that the Comparable 2 is the best evidence as it is transacted nearest to the date of valuation of the Subject Property and can reflect the current market condition of industrial property in Kota Kemuning.

Investment Method

In **"Investment Method"**, the capital value is derived from an estimate of the Market Rental, which the Subject Property can reasonably be let for. Outgoings, such as property tax, repairs and maintenance, insurance and management are then deducted from the annual rental income. The net annum rental income is capitalised at an appropriate current market yield to arrive at its indicative capital value.

We noted that there is no concluded rental in the Department of Property Valuation and Services (JPPH) record. However, our verbal checking with the local real estate agents revealed that the asking rentals of individual-designed factory / warehouse complexes located within Kota Kemuning are in the range of RM1.50 per square foot to RM1.80 per square foot. We have adopted the following parameters for the Investment Method:-

<table>
<tr><th>Item</th><th>Amount</th><th>Remarks</th></tr>
<tr><td>Rental</td><td>RM1.40 per square foot</td><td>The asking rental was about RM1.50 per square foot. An allowance of RM0.10 per square foot or about 7% is allocated for negotiation</td></tr>
<tr><td>Void</td><td>10%</td><td>We have allocated a void factor of 10% to accommodate the vacant and/or rent free period during the transition of exchanging tenant.</td></tr>
<tr><td>Outgoing</td><td>10%</td><td>The actual annual outgoings of the Subject Property for the past 3 years is RM65,543.50 (or 5.67%), RM82,953.46 (or 7.17%) and RM88,263.93 (or 7.63%) for the financial year ended 2015, 2016 and 2017 respectively. We had adopted 10% from the total estimated annual rental in the calculation of outgoing to accommodate for other unexpected cost.</td></tr>
<tr><td>Capitalization Rate</td><td>3.5%</td><td>The following data were referred for the estimation of yield.
<table>
<tr><th>Property</th><th>Consideration / Date of Transaction</th><th>Monthly Asking Rental</th><th>Net Yield</th></tr>
<tr><td>Jalan 31/59, Kota Kemuning</td><td>RM14,200,000 / November 19, 2015</td><td>RM 67,773.00</td><td>4.58%</td></tr>
<tr><td>Jalan 31/47, Kota Kemuning</td><td>RM11,000,000 / April 6, 2016</td><td>RM30,891.00</td><td>2.70%</td></tr>
<tr><td>Jalan 31/48, Kota Kemuning</td><td>RM11,720,000 / September 1, 2015</td><td>RM45,000.00</td><td>3.69%</td></tr>
</table>
Our in-house research revealed that the outgoing for a factory complex in this region is about 9% to 13%, depending on the efficiencies of the management of the factory owner. Therefore, we have adopted a 10% for outgoing in analysing the net yield for each comparable property. We have also allocated a void factor of 10% for each comparable property.

The analysis of the above data shows that the net yields are ranged from 2.70% to 4.58%. We are in opinion that the Subject Property is located at a more preferred / established area in Klang Valley, therefore, the net yield of 3.50 %, after taking into consideration of void and outgoing factors, is adopted.</td></tr>
</table>

The value summary from both methods of valuation and the reconciliation rationale are as follows:-

Cost Approach **RM28,000,000.00**

Investment Method **RM26,400,000.00**

<u>Conclusion</u>

In this valuation, we have adopted figures derived from the **Cost Approach** and used the **Investment Method** as a cross check method.

This is due to the fact that the **Investment Method** involves the conversion of an income flow from property into an appropriate capital sum. The assessment of a rental value is therefore an important process and a reasonably accurate estimate is therefore vital. The lack of concluded rental evidences have resulted us to depend on asking rental to arrive at the notional income flow. Hence, these factors reduce the accuracy of the **Investment Method** as compared to the **Cost Approach** in terms of the value in this exercise.

We are in our opinion that the **Cost Approach** is a more appropriate method as this approach is referring to the current construction cost that required to built a similar building less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

Taking into consideration all the relevant factors, we are of the opinion that the current **Market Value** of the unencumbered interest in the Subject Property in its existing physical condition and with the benefit of vacant possession is: -

Market Value - RM28,000,000.00 (Ringgit Malaysia: Twenty Eight Million Only)

Yours faithfully,
HENRY BUTCHER MALAYSIA (SEL) SDN. BHD.

Sr TEW KOK HWAT
B.Surv., MRIS(M), APEPS
Registered Valuer (V-481)

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14. ADDITIONAL INFORMATION

14.1 Share Capital

(i) No Shares will be allotted or issued on the basis of this Prospectus after six months from the date of this Prospectus.

(ii) There is no founder, management or deferred shares in our Company. We have only one class of shares in our Company, namely ordinary shares, all of which rank equally with one another.

(iii) None of our Group's capital is under option, or agreed conditionally or unconditionally to be put under any option.

(iv) Save as disclosed in this Prospectus, no shares and / or debentures, warrants, options, convertible securities or uncalled capital 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 two preceding years from the date of this Prospectus.

(v) Other than 6,000,000 Public Issue Shares reserved for our eligible Directors and employees of our Group and other persons who have contributed to the success of our Group as disclosed in Section 2.3.1 of this Prospectus:

(a) no person including Directors or employees of our Group has been or is entitled to be given or has exercised any option to subscribe for any shares or debentures, warrants, options, convertible securities or uncalled capital of our Company or our Subsidiaries; and

(b) there is currently no other scheme involving our Directors and employees of our Group and other persons who have contributed to the success of our Group in the share capital of our Company or our Subsidiaries.

(vi) As at the date of this Prospectus, we do not have any convertible debt securities.

14.2 Extracts of Our Constitution

The following provisions are reproduced from our Constitution and are qualified in its entirety by the provisions of our Constitution and by applicable law. Terms defined in our Constitution shall have the same meaning when used here unless they are otherwise defined here or the context otherwise requires.

(i) Transfer of Securities

Clause 41

The transfer of any listed securities or class of listed securities of the Company shall be made by way of book entry by the Depository in accordance with the Rules and, notwithstanding Sections 105, 106 and 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall not be required to register or effect any transfer of the listed securities.

(ii) Remuneration of Directors

Clause 110

Subject to this Constitution, the fees of the Directors and any benefits payable to the Directors shall be subject to annual shareholder approval at a general meeting provided always:

(1) Directors' fees and benefits payable to Directors not holding any executive office in the Company shall be a fixed sum and shall not be payable by a commission on or percentage of profits or turnover;

(2) salaries payable to Directors holding any executive office pursuant to a contract of service need not be determined by the Company in a general meeting but such salaries may not include a commission on or a percentage of turnover;

(3) all remuneration payable to Directors shall be deemed to accrue from day to day;

(4) fees and benefits payable to Directors shall not be increased except pursuant to a resolution passed by the Company in a general meeting, where notice of the proposed increase has been given in the notice convening the meeting; and

(5) any fee and benefit paid to an alternate Director shall be agreed between him and his appointor and shall be deducted from his appointor's remuneration.

Clause 112

The Directors may grant special remuneration to any Director who (on request by the Directors) is willing to:

(1) render any special or extra services to the Company; or

(2) to go or reside outside his country of domicile or residence in connection with the conduct of any of the Company's affairs.

Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be paid in a lump sum or by way of salary, or by a percentage of profits, or by all or any of such methods but shall not include (where such special remuneration is paid by way of salary) a commission on or a percentage of turnover.

(iii) Voting and Borrowing Powers of Directors

Clause 124

Except as provided by Clause 125, the Directors may exercise all the powers of the Company to borrow money of any sum or sums from any person, bank, firm or company and to mortgage or charge its undertaking, property and uncalled capital, and any part thereof and to issue debentures and other securities, whether as primary or collateral security for any debt, liability or obligation of the Company, its subsidiaries or any other party. The Directors may guarantee the whole or any part of the loans or debts raised or incurred by or on behalf of the Company or any interest payable thereon with power to the Directors to indemnify the guarantors from or against liability under their guarantees by means of a mortgage or hypothecation of or charge upon any property and asset of the Company or otherwise. The Directors may exercise all the powers of the Company to guarantee and give guarantees or indemnities for payment of money, the performance of contracts or obligations or for the benefit or interest of the Company or its Subsidiaries.

Clause 125

The Directors shall not borrow any money or mortgage or charge any of the Company's or its Subsidiaries' undertaking, property or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

Clause 126

The Company shall keep a 'register of charges' in accordance with Section 357 of the Act. No fee shall be charged for any inspection of such register by a Member or a creditor of the Company.

Clause 143

Subject to this Constitution, the Directors may regulate their proceedings as they think fit. A Director may, and the Secretary at the request of a Director shall, call a meeting of the Directors. Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the Chairman of the meeting shall (subject to Clause 146) have a second or casting vote.

Clause 144

The quorum for the transaction of the business of the Directors or of a committee of Directors may be fixed by the Directors or the members of the committee (as the case may be) and unless so fixed at any other number shall be two (2). A person who holds office only as an alternate Director shall, if his appointor is not present, be counted in the quorum.

Clause 146

When two (2) Directors form a quorum, the chairman of a meeting at which only such a quorum is present, or at which only two (2) Directors are competent to vote on the question at issue, shall not have a casting vote. Otherwise in the case of an equality of votes the Chairman shall have a second or casting vote.

Clause 147

All acts done by a meeting of Directors, or of a committee of Directors, or by a person acting as a Director shall, notwithstanding that it be afterwards discovered that there was a defect in the appointment of any Director or that any of them were disqualified from holding office, or had vacated office, or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director and had been entitled to vote.

Clause 150

Except as otherwise provided by this Constitution, a Director shall not vote at a meeting of Directors or of a committee of Directors on any resolution concerning any contract, proposed contract, arrangement or other matter in which he has, directly or indirectly, a personal interest or duty which is material and which conflicts or may conflict with the interests of the Company unless his interest or duty arises only because the case falls within one or more of the following paragraphs:

(1) in a case where the contract or proposed contract relates to any loan to the company that he has guaranteed or joined in guaranteeing the repayment of the loan or any part of the loan; or

(2) in a case where the contract or proposed contract has been or will be made with or for the benefit of or on behalf of a Related Corporation - that he is a director of that corporation.

For avoidance of doubt, a Director shall be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

Section 151

Where proposals under consideration are concerning or relating to the terms of employment, consultancy or other services of or to be provided by Directors to or with the Company or any body corporate in which the Company is interested or other related matters, the proposals may be divided and considered in relation to each Director separately and (provided he is not for another reason precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own.

Sections 152

If a question arises at a meeting of Directors or of a committee of Directors as to the right of a Director to vote, the question may, before the conclusion of the meeting, be referred to the Chairman of the meeting and his ruling in relation to any Director other than himself shall be final and conclusive.

(iv) Changes in Capital and Variation of Class Rights

Clause 8

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may (subject to Section 90 of the Act and whether or not the Company is being wound up) be varied or abrogated in accordance with Section 91 of the Act.

Clause 9

To every such separate general meeting, the provisions of this Constitution relating to general meetings shall mutatis mutandis apply, except that the necessary quorum shall be two (2) persons and any holder of shares of the class present in person or by proxy may demand a poll.

To every such special resolution, Section 292 of the Act shall with such adaptations as are necessary apply.

Clause 10

All new issues of Securities for which listing is sought shall be made by way of crediting the Securities Accounts of the allottees or entitled persons with such Securities save and except where the Company is specifically exempted from complying with Section 38 of the Central Depositories Act, in which event it shall be so similarly be exempted from compliance with this Clause. For this purpose, the Company shall notify the Depository of the names of the allottees or entitled persons and all such particulars as may be required by the Depository to enable the Depository to make the appropriate entries in the Securities Accounts of such allottees or entitled persons. Notwithstanding this Constitution, the Company shall comply with the provisions of the Central Depositories Act and the Rules in all matters relating to the prescribed Securities.

Clause 11

Subject to Section 91 of the Act, the rights attached to any class shall not (unless otherwise provided by the terms of issue of such shares) be deemed to be varied by the creation or issue of further shares ranking in any respect pari passu with that class.

Clause 12

Subject to the Act and this Constitution, the Directors may offer, issue, allot (with or without conferring a right of renunciation) shares of the Company (whether forming part of the original or any increased capital), grant options over, grant any right or rights to subscribe for such shares or any right or rights to convert any Security into such shares, or otherwise deal with or dispose of them to such persons at such times and on such terms and conditions as they may determine.

Clause 13

Clause 12 shall be subject to the following provisions:

(1) the Company shall not offer, issue, allot, grant options over shares, grant any right or right to subscribe for shares or any right or rights to convert any security into shares or otherwise deal with or dispose of shares which will or may have the effect of transferring a controlling interest in the Company without the prior approval of the Members in a general meeting;

(2) no Director shall participate in a Share Issuance Scheme unless the Members in a general meeting have approved the specific allotment to such Director and the Director has abstained from voting on the relevant resolution; and

(3) the rights attached to shares of a class other than ordinary shares shall be expressed in the resolution creating them.

Clause 14

Subject to the Act and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or as the Directors (subject to them being duly authorised to do so by an ordinary resolution of the Company) may determine provided that where the capital of the Company consists of shares of different monetary denominations, voting rights shall be determined in such a manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable.

Clause 67

The Company may by special resolution:

(1) consolidate and divide all or any of its share capital;

(2) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and / or

(3) subdivide its shares or any of the shares, whatever is in the subdivision, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided shares is derived.

Anything done in pursuance of this Clause shall be done in manner provided and subject to any conditions imposed by the Act, so far as they shall be applicable, and, so far as they shall not be applicable, in accordance with the terms of the resolution authorising the same, and, so far as such resolution shall not be applicable, in such manner as the Directors deem most expedient.

Clause 68

Subject to any direction by the Company in a general meeting, if any consolidation and / or subdivision of shares results in Members being entitled to any issued shares of the Company in fractions, the Directors may deal with such fractions as they may determine including (without limitation), selling the shares to which Members are so entitled for such price as the Directors may determine and paying and distributing to the Members entitled to such shares in due proportions the net proceeds of such sale.

Clause 70

The Company may by special resolution in accordance with Section 115 of the Act reduce its share capital in the manner as authorised by law. The Company shall give notice to the Registrar in accordance with the Act of such alteration in capital.

Clause 72

Except so far as otherwise provided by the conditions of issue, all new shares shall be subject to the same provisions as to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the shares in the existing share capital.

14.3 Limitation on the Right to Own Securities

There is no limitation on the right to own securities of our Company including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on the securities of our Company imposed by law or by our Constitution.

14.4 Deposited Securities and Rights of Depositors

As our Shares are proposed for quotation on the Official List, such Shares must be prescribed as shares required to be deposited with Bursa Depository. Upon such prescription, a holder of our Shares must deposit his Shares with Bursa Depository on or before the date fixed, failing which our share registrar will be required to transfer the Shares to the Minister of Finance.

Dealing in Shares deposited with Bursa Depository may only be effected by a person having a securities account with Bursa Depository ("**Depositor**") by means of entries in the securities account of that Depositor.

A Depositor whose name appears in the Record of Depositors maintained by Bursa Depository in respect of our Shares shall be deemed to be our shareholder and shall be entitled to all rights, benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of, or arising from, such Shares.

14.5 Material Litigation / Arbitration

As at the LPD, save as disclosed below, our Group is not engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of our Group, and our Directors have no knowledge of any proceedings pending or threatened of any fact likely to give rise to any proceedings which may materially and adversely affect the business or financial position of our Group:

Suit in the Shah Alam High Court ("Court") (Suit No. BA-22NCvC-217-05/2018) filed by Techbond Manufacturing ("Plaintiff") against Fabina Properties Sdn Bhd ("1st Defendant"), Peng Hai Chai ("2nd Defendant"), Cemerlang Emas Sdn Bhd ("3rd Defendant") and Pendaftar Hakmilik Negeri Selangor ("4th Defendant")

On 3 May 2018, the Plaintiff filed a suit against the 1st Defendant, 2nd Defendant, 3rd Defendant and 4th Defendant (collectively referred as "**Defendants**") for specific performance of the transfer of a piece of land together with a 1½ storey factory located at Meru Industrial Park, Klang, Selangor Darul Ehsan ("**Property**") back to the Plaintiff or alternatively, a compensation sum of RM4,500,000, which is equivalent to the current market value of the Property and / or such other amount or remedy as the Court deems fit.

The table below sets out the chronology of events in respect of the abovementioned suit:

Date	Event
15 January 1997	▪ The Plaintiff purchased the Property from Tiara Etika Development Sdn Bhd ("**Original Developer**") via a sale and purchase agreement. The Original Developer was subsequently wound up on 30 October 2001, without completing the development of the Property. The development of the Property was subsequently taken over by the 1st Defendant.
15 September 2003	▪ The Plaintiff sold the Property to Lee Seng Thye for RM1,926,123.04 pursuant to a sale and purchase agreement, of which the sum was fully paid by Lee Seng Thye to the Plaintiff ("**2003 SPA**"). However, the Property can only be transferred to Lee Seng Thye upon completion of the development of the Property and the FPSB Transfer (as defined below).
28 March 2006	▪ The 1st Defendant entered into a supplementary agreement with the Plaintiff ("**Supplementary Agreement**") which obliged the 1st Defendant to deliver vacant possession and to execute the memorandum of transfer in favour of the Plaintiff ("**FPSB Transfer**").
30 April 2014	▪ The 1st Defendant sold the Property to the 2nd Defendant via a sale and purchase agreement without the knowledge of the Plaintiff.
18 June 2014	▪ The 2nd Defendant subsequently sold the Property to the 3rd Defendant via another sale and purchase agreement.

Upon discovering the above, the Plaintiff filed the suit against all the Defendants for the re-transfer of the Property to the Plaintiff (on the ground of fraudulent transfer of ownership), in order for the Plaintiff to complete its obligation under the 2003 SPA to transfer the Property or alternatively, a compensation sum of RM4,500,000, which is equivalent to the current market value of the Property and / or such other amount or remedy as the Court deems fit, to Lee Seng Thye.

The Plaintiff's solicitors opined that as Lee Seng Thye is unable to initiate the suit in his personal capacity, the suit was initiated through the Plaintiff as only Techbond Manufacturing has direct legal capacity to initiate action against the Defendants.

The Plaintiff's solicitors further opined that the Plaintiff has a strong cause of action and merit of the case. Further, Lee Seng Thye had issued a letter of indemnity to the Plaintiff, indemnifying Techbond Manufacturing against the possibility of a counter-claim by any of the Defendants.

The matter is fixed for case management on 12 December 2018 for parties to file the trial documents.

14.6 Material Contracts

Save as disclosed below, we have not entered into any material contracts (including contracts not in writing), which are not contracts entered into in the ordinary course of business during the FYE 2015, FYE 2016, FYE 2017 and FYE 2018 up to the date of this Prospectus:

(i) On 9 June 2015, Techbond Manufacturing had entered into a sale and purchase agreement with LST Realty Sdn Bhd as amended on 22 June 2015 (collectively, "**SPAs**") for the disposal of the Shah Alam Factory I held under HS(D) 119515, PT 98130, Mukim Klang, Daerah Klang, Negeri Selangor for a disposal consideration of RM20,000,000. The parties had on 5 September 2016 entered into a rectification agreement to restore the parties to the prior position as though the SPAs had not been entered into. The Shah Alam Factory I has been re-registered under the name of Techbond Manufacturing on 9 December 2016;

(ii) On 30 December 2016, Techbond Mfg Vietnam had entered into a lease agreement with Vietnam - Singapore Industrial Park J.V., Co., LTD for the lease of a land use right of 30,000 sq. mt. at Land Lot No. 146, Road No. 23, Vietnam- Singapore II-A Industrial Park, Vinh Tan Commune, Tan Uyen Town, Binh Duong Province, Vietnam, under which the lease term is from 30 December 2016 to 19 March 2058 for a total amount of VND35,775,000,000. The land use right is leased to implement business activities specified in Techbond Mfg Vietnam's Investment Registration Certificate and Enterprise Registration Certificate. In this connection, Techbond Mfg Vietnam has been granted the Land use right certificate No. CM 644401 (registration for issuing the certificate no. CT23753) dated 26 January 2018 by the Department of Natural Resources & Environment of Binh Duong Province;

(iii) On 20 December 2017, Techbond had entered into a share sale agreement with Lee Seng Thye, Tan Siew Geak, Kam Loy Yew, Ong Chi Kiong and Flora Chang as amended on 26 April 2018 for the Acquisition of Techbond International Group, Acquisition of Techbond Manufacturing and Acquisition of Techbond Sabah for a total amount of RM73,363,634 as disclosed in Sections 4.4.1.1, 4.4.1.2 and 4.4.1.3 of this Prospectus. This transaction was completed on 3 September 2018;

(iv) On 20 December 2017, Techbond had entered into a capital transfer agreement with Lee Seng Thye and Tan Siew Geak for the Acquisition of Techbond Vietnam as for a total amount of VND157,863,895,027 disclosed in Section 4.4.1.4 of this Prospectus. This transaction was completed on 7 September 2018;

(v) On 12 September 2018, Techbond had entered into a placement agreement with the Sole Placement Agent where Techbond agreed to appoint the Sole Placement Agent for the placement of 42,605,000 Public Issue Shares made available for application by way of private placement to Bumiputera Investors approved by MITI and selected investors; and

(vi) On 12 September 2018, Techbond had entered into an underwriting agreement with the Sole Underwriter where the Sole Underwriter has agreed to underwrite 17,200,000 Public Issue Shares comprising 11,500,000 Public Issue Shares offered to the Malaysian Public and 5,700,000 Public Issue Shares offered to the eligible employees of our Group and other persons who have contributed to the success of our Group.

14.7 Public Take-Overs

None of the following has occurred during the last financial year up to the LPD:

(i) public take-over offers by third parties in respect of our Shares; and

(ii) public take-over offers by us in respect of other company's shares.

14.8 Consents

(i) The written consents of the Principal Adviser, Sole Underwriter and Sole Placement Agent, Company Secretaries, Independent Internal Control Consultant, Solicitors for our IPO, Issuing House and Share Registrar to the inclusion in this Prospectus of their names and all references 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.

(ii) The written consent of Grant Thornton Malaysia, the Auditors and Reporting Accountants to the inclusion in this Prospectus of its name, Accountants' Report and Reporting Accountants' Letter on the Pro Forma Consolidated Statements of Financial Position and all references in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus, and has not subsequently been withdrawn.

(iii) The written consent of Vital Factor Consulting Sdn Bhd, the Independent Business and Market Research Consultants to the inclusion in this Prospectus of its name, the IMR Report and all references in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus, and has not subsequently been withdrawn.

(iv) The written consents of Henry Butcher Malaysia (SEL) Sdn Bhd, the Independent Valuer to the inclusion in this Prospectus of their names and valuation certificates 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.

14.9 Responsibility Statements

(i) Our Directors and the 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, after having made all reasonable enquiries, that to the best of their knowledge and belief, there are no false or misleading statements or other facts the omission of which would make any statement in this Prospectus false or misleading.

(ii) PIVB being the Principal Adviser, Sole Underwriter and Sole Placement Agent, acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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15. DOCUMENTS AVAILABLE FOR INSPECTION

15.1 Documents Available for Inspection

Copies of the following documents may be inspected at our Registered Office during normal business hours for a period of six months from the date of this Prospectus:

(i) the Constitution;

(ii) the IMR Report as set out in Section 6 of this Prospectus;

(iii) the Reporting Accountants' Letter on the Compilation of Pro Forma Consolidated Statements of Financial Information as set out in Section 10.4 of this Prospectus;

(iv) the Accountants' Report as set out in Section 12 of this Prospectus;

(v) the valuation certificates as set out in Section 13 of this Prospectus;

(vi) the relevant cause papers in relation to the material litigation as set out in Section 14.5 of this Prospectus;

(vii) the material contracts as set out in Section 14.6 of this Prospectus;

(viii) the Binh Duong Land Lease Agreement;

(ix) the letters of consent referred to in Section 14.8 of this Prospectus;

(x) audited financial statements of our Company for the financial period from 8 June 2016 (date of incorporation) to 30 June 2017 and FYE 2018; and

(xi) audited financial statements of our Subsidiaries for the FYE 2015, FYE 2016, FYE 2017 and FYE 2018.

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16. PROCEDURES FOR APPLICATION AND ACCEPTANCE

16.1 Opening and Closing of Application

The application will open at **10.00 a.m.** on **13 November 2018** and will remain open until **5.00 p.m.** on **23 November 2018**.

If the closing date of the application is extended, we will advertise a notice of the extension in a widely circulated English and Bahasa Malaysia daily newspaper within Malaysia before the original closing date of the application. Following this, the dates for the balloting, allotment of our IPO Shares and our Listing will be extended accordingly.

Late applications will not be accepted.

16.2 Types and Methods of Application

Your application for the IPO Shares shall be made in connection with and subject to the terms of this Prospectus and our Constitution and in accordance to the following application types together with the corresponding method:

No.	Types of application	Application method
(a)	Malaysian Public – Applications for the 11,500,000 new Shares made available for application by the Malaysian Public to be allocated via balloting:	
	(i) Malaysian Public - Individuals	▪ **WHITE** Application Form or ▪ Electronic Share Application or ▪ Internet Share Application
	(ii) Malaysian Public - Non Individuals	▪ **WHITE** Application Form only
(b)	Eligible Person(s) – Applications for the 6,000,000 new Shares	▪ **PINK** Application Form only
(c)	Bumiputera Investors – Applications for the 23,000,000 new Shares made available for application by way of private placement to Bumiputera Investors approved by MITI	▪ Bumiputera Investors approved by MITI will be contacted directly by MITI and should follow the instructions as communicated through MITI
(d)	Selected investors – Applications for the 19,605,000 new Shares made available for application by way of private placement to selected investors	▪ Selected investors will be contacted directly by the Sole Placement Agent and should follow the instructions as communicated by the Sole Placement Agent

16.3 Eligibility

16.3.1 Application by the Malaysian Public (White Application Form, Electronic Share Application or Internet Share Application)

You can only apply for our IPO Shares if you fulfill all of the following:

(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 set out in the list of ADAs accompanying the electronic copy of this Prospectus on the website of Bursa Securities;

(ii) You must be one of the following:

(a) a Malaysian citizen who has attained 18 years of age as at the date of the application for the IPO Shares with a Malaysian address; or

(b) a corporation / institution incorporated in Malaysia where there is a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

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 (ii)(b) or (c) above or the trustees thereof; and

(iii) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House.

16.3.2 Application by the Eligible Person(s) (Pink Application Form)

The Eligible Person(s) will be provided with Pink Application Forms and letters by us detailing their respective allocation. The applicants must follow the notes and instructions in the said documents and where relevant, in this Prospectus.

The Eligible Person(s) who apply for our IPO Shares must have a CDS account and a correspondence address in Malaysia.

Applicants provided with Pink Application Forms may also apply for our IPO Shares offered to the Malaysian Public.

16.4 Procedures for Application by way of Application Forms

Each application for our IPO Shares must be made on the correct Application Form issued together with this Prospectus. The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications which do not conform **STRICTLY** to the terms of this Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The Eligible Person(s) who have made applications using the Pink Application Forms may still apply for the IPO Shares offered to the Malaysian Public using the White Application Form or Electronic Share Application or Internet Share Application.

Only one Application Form from each applicant will be considered and **APPLICATIONS MUST BE FOR 100 IPO SHARES OR MULTIPLES THEREOF. MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED.** A person who submit multiple applications in his own name or by using the name of others, with or without their consent, commits an offence under Section 179 of the CMSA and if convicted, may be punished with a minimum fine of RM1,000,000 and a jail term of up to 10 years under Section 182 of the CMSA.

As such, applicants using the White and Pink Application Form are not allowed to submit multiple applications in the same category of application. Further, applicants who have submitted their applications using the White Application Form are not allowed to make additional applications using the Electronic Share Application and the Internet Share Application, and *vice versa*.

The amount payable in full on application is RM0.66 per IPO Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 679"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Please refer to the detailed procedures and terms and conditions as set out in the "**Procedures for Application and Acceptance**" accompanying the electronic copy of this Prospectus on the website of Bursa Securities or contact the Issuing House for further enquiries.

Each completed Application Form, accompanied by the appropriate remittance and clear photocopy of the relevant documents may be submitted using one of the following methods:

(i) despatched by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd *(11324-H)*
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(ii) **DELIVERED BY HAND AND DEPOSITED** in the drop-in boxes provided at their Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur,

so as to arrive not later than 5.00 p.m. on 23 November 2018. We will not accept late applications.

We, together with our Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or application monies. Please direct all enquiries in respect of the White Application Form to our Issuing House.

16.5 Application by way of Electronic Share Applications

Only Malaysian individuals may apply for our IPO Shares by way of Electronic Share Applications in respect of our IPO Shares made available to the Malaysian Public.

Electronic Share Applications may be made through an ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

Please refer to the detailed procedures and terms and conditions of Electronic Share Applications set out in the "**Procedures for Application and Acceptance**" accompanying the electronic copy of this Prospectus on the website of Bursa Securities or contact the relevant Participating Financial Institution for further enquiries.

16.6 Application by way of Internet Share Applications

Only Malaysian individuals may use the Internet Share Applications to apply for our IPO Shares made available to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CIMB Investment Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

Please read carefully and follow the terms of this Prospectus, the procedures, terms and conditions for Internet Share Applications and the exact procedures as set out on the internet financial services website of the Internet Participating Financial Institution before making an Internet Share Application.

The detailed procedures and terms and conditions for Internet Share Applications are set out in the "**Procedures for Application and Acceptance**" accompanying the electronic copy of this Prospectus on the website of Bursa Securities or contact the relevant Internet Participating Financial Institution for further enquiries.

16.7 Authority of Our Board and the Issuing House

Your application will be selected in a manner to be determined by our Board. Due consideration will be given to the desirability of distributing our IPO Shares to a reasonable number of applicants with a view to establishing a liquid and adequate market for our Shares. The Issuing House, on the authority of our Board reserves the right to:

(i) reject applications which:

- do not conform to the instructions in this Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
- illegible, incomplete or inaccurate; or

(ii) reject or accept any application, in whole or in part, on a non-discriminatory basis without assigning any reason therefor; and

(iii) bank in all application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest or any share of revenue or benefit arising therefrom), by

- crediting into your bank account for purposes of cash dividend / distribution if you have provided such bank account information to Bursa Depository; or
- ordinary post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository.

If you are successful in your application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor shall it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

16.8 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 the acceptance of applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of distributing our IPO Shares to a reasonable number of applicants for the purpose of broadening the shareholding base of our Company and establishing a liquid and adequate market in the trading of our Shares.

Pursuant to the Listing Requirements, we are required to have at least 25% of the enlarged issued share capital in the hands of public shareholders and a minimum of 1,000 public shareholders holding not less than 100 IPO Shares each at the point of Listing. We expect to achieve this at the point of Listing. In the event that the above requirement is not met, we may not be allowed to proceed with the Listing. In the event thereof, monies paid in respect of all applications will be returned in full (without interest or any share of revenue or benefit arising therefrom).

If such monies are not returned within 14 days after our Company becomes liable to repay it, then in addition to the liability of our Company, the officers of our Company shall be jointly and severally liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be prescribed by the SC from the expiration of that period.

In the event of an under-subscription of our IPO Shares by the Malaysian Public and / or the Eligible Persons, subject to the underwriting arrangements and reallocation as set out in Section 2.3.1 of this Prospectus, any of the abovementioned IPO Shares not applied for will then be subscribed by our Sole Underwriter based on the terms of the Underwriting Agreement.

16.9 Unsuccessful / Partially Successful Applicants

Application monies in respect of the unsuccessful / partially successful applicants will be returned without interest or any share of revenue or benefit arising therefrom in the following manner:

16.9.1 For applications by way of Application Forms

(i) The application monies or the balance of it, as the case may be, will be returned to you 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 if you have provided such bank account information to Bursa Depository or by ordinary post to your address maintained at Bursa Depository (for partially successful applications) within ten Market Days from the date of the final ballot if you have not provided such bank account information to Bursa Depository at your own risk.

(ii) If your application was 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 balloted applications which are rejected. The application monies relating to these applications which were subsequently rejected or unsuccessful or only partly successful will be refunded (without interest or any share of revenue or benefit arising therefrom) as per item (i) and (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 within ten Market Days from the date of the final ballot 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 at 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).

16.9.2 For applications by way of Electronic Share Application and Internet Share Application

(i) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful applications within two Market Days after the balloting date. The full amount of the application monies or the balance of it will be credited without interest or any share of revenue or benefit arising therefrom into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) within two Market Days after the receipt of confirmation from the Issuing House.

(ii) You may check your account on the 5th Market Day from the balloting day.

(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 or any share of revenue or benefit arising therefrom) by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than ten Market Days from the final balloting date.

(iv) 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 two 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 two Market Days after the receipt of written confirmation from the Issuing House.

16.10 Successful Applicants

If you are successful in your application:

(i) Our IPO Shares allotted to you will be credited into your CDS account.

(ii) A notice of allotment will be despatched to you at the address last maintained with the Bursa Depository, at your own risk, before the Listing. This is your only acknowledgement of acceptance of the application.

(iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed the shares as prescribed securities. As such, the IPO Shares issued / offered through this Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

(iv) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

16.11 Enquiries

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Forms	Issuing House Enquiry Services at telephone no. 03-2783 9299 or Issuing House Website at www.myetricor.com
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website, one Market Day after the balloting date.

You may also check the status of your application by calling your ADA between five to ten Market Days (during office hours only) after the balloting date at the telephone number as stated in the list of ADAs accompanying the electronic copy of this Prospectus on the website of Bursa Securities.

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