

## 8. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT

PROTEGE ASSOCIATES SDN BHD (675767-H)  
SUITE C-06-06, PLAZA MONT' KIARA  
2 JALAN KIARA, MONT' KIARA  
50480 KUALA LUMPUR, MALAYSIA  
GEN +603 6201 9301 FAX +603 6201 7302  
www.protege.com.my

Protégé  
ASSOCIATES

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The Board of Directors  
HPMT Holdings Berhad,  
No. 5, Jalan Sungai Kayu Ara 32/39,  
Taman Berjaya, Seksyen 32,  
40460 Shah Alam,  
Selangor.

3 May 2019

Dear Sirs,

### Executive Summary of the Strategic Analysis of the Cutting Tools Industry in Malaysia with an Overview of the Global Cutting Tools Industry

Protégé Associates Sdn Bhd ("Protégé Associates") has prepared this executive summary of the 'Strategic Analysis of the Cutting Tools Industry in Malaysia with an Overview of the Global Cutting Tools Industry' for inclusion in the prospectus of HPMT Holdings Berhad ("HPMT") in relation to its listing on the Main Market of Bursa Malaysia Securities Berhad.

Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key competitive landscape, demand and supply conditions, government regulations, industry trends and the outlook of the industry.

Mr. Seow Cheow Seng is the Managing Director of Protégé Associates. He has 18 years of experience in market research, having started his career at Frost & Sullivan where he spent 7 years. He has been involved in a multitude of industries covering Automotive, Electronics, Healthcare, Energy, IT, Oil and Gas, etc. He has also provided his market research expertise to government agencies such as Malaysia Digital Economy Corporation Sdn Bhd, Malaysia Debt Ventures Berhad and Malaysia Technology Development Corporation Sdn Bhd.

We have prepared this report in an independent and objective manner and have taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours sincerely,



SEOW CHEOW SENG  
Managing Director

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### 1.0 Introduction to Cutting Tools

Cutting tools are instruments that are mainly used to remove material from a piece of metal through physical deformation to achieve a specific shape and form. This is done through a process called machining or subtractive manufacturing. Cutting tools are commonly used by machine tools such as Computer Numerical Control ("CNC") machines to produce end products such as moulds and dies and metal components for various industries. These CNC machines are automated machines with programmable cutting sequences, thus allowing for precise and fine cutting at multiple axes on a workpiece.

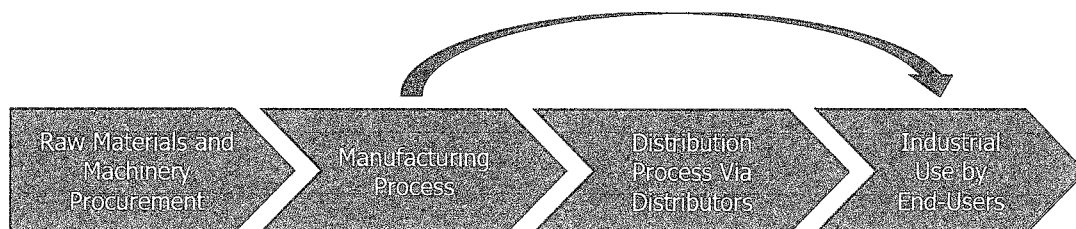
The geometry of cutting tool ends vary greatly depending on the machining process it is designed to carry out. Specifications of the cutting tools such as its material, its diameter, the number of cutting teeth, angles of the cutting teeth, presence of coolant holes and other design characteristics are some of the key features which dictate the cutting tool's application. In terms of applications, cutting tools can be segmented into standard tools and special tools. Standard tools generally refer to universal cutting tools that are used for general applications across metalworking industries. On the other hand, special tools are used for specific applications on more complex machining such as mould and die, micro-tools and cutting of other types of material such as graphite, titanium and inconel.

### 1.1 Supply Chain Analysis

Cutting tools play a crucial role in the manufacturing process of various industrial manufacturers. In general, manufacturers often use different types of cutting tools based on their design requirements. These group of manufacturers are the end-users of the cutting tools and include companies in the automotive, aerospace, electrical and electronic ("E&E"), general engineering/ machining, mould and die and oil and gas industries.

The supply chain of the cutting tools industry begins with the sourcing of raw materials such as tungsten carbide and high speed steel ("HSS"), as well as the acquisition of machineries required for the manufacture of cutting tools. The completed cutting tools are then sold via distributors or directly to end-users as depicted in Figure 1. These distributors are often companies that have captured a certain market share within a market or region and sometimes even have established their own brand names. These distributors allow players in the cutting tools industry to have a global reach without having the need to establish their own global distribution channel.

**Figure 1: Supply Chain of the Cutting Tools Industry**



Source: Protégé Associates

**8. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT****2.0 Global Cutting Tools Market**

The global cutting tools industry was estimated to be valued at United States Dollar ("USD") 19.44 billion in 2018 and is expected to reach USD23.52 billion by 2023 with a forecast compound annual growth rate ("CAGR") of 3.9% from 2019 to 2023. Cutting tools are utilised in the manufacturing process of metal components via machining, particularly using CNC machines for the production of metal products that are precise in shape and form. Two major types of cutting tools dominate the global cutting market, which are cutting tools made from tungsten carbide and HSS. However, cutting tools that are made out of ceramic, cermet, and cubic boron nitride are also present in the global cutting tools landscape, albeit these are less common as compared to tungsten carbide and HSS tools.

Global demand for cutting tools is largely driven by various manufacturing industries. These industries exhibit high demand for such tools due to the nature of the industries in utilising precision components that are manufactured using CNC machining within their products, such as engine components, structural parts, injection moulds, semiconductors etc. Furthermore, many global manufacturers are beginning to incorporate automation within their manufacturing lines as a means to improve operational efficiency and productivity. This trend will lead to a surge in machine tool usage, particularly CNC machine tools, which will further fuel the demand for cutting tools.

The global cutting tools industry can be segmented into the following geographical segments: Asia-Pacific ("APAC"), Europe, North America and the Rest of the World. In 2018, APAC represents the largest and fastest growing cutting tools market, constituting 48.0%, or USD9.33 billion, of the global market share due to the presence of various prominent players such as China, Japan, Malaysia, South Korea, Taiwan, Thailand and Vietnam. Europe represents the second largest cutting tool market in the world, constituting 28.0%, or USD5.45 billion, of the global market share. Cutting tool consumption in this region is largely motivated by Western European countries such as Germany, Italy, France, Spain, Switzerland and the UK. North America (comprising of Canada and the US) comes third with a market share of 19.5%, or USD3.79 billion. Finally, the Rest of the World represents 4.5%, or USD0.87 billion, of the global cutting tools market.

**2.1 Regional Consumption of Cutting Tools**

The general trends of consumption of and demand for cutting tools in each region are as follows:

**Europe**

Within Europe, the major countries that are cutting tool consumers include Germany, France and Italy. Cutting tools in Germany mainly serve the automotive, medical and chemical processing industries, which account for around 12.5%, 11.0% and 9.9% respectively of total cutting tools consumption. Other major end-users in Germany include the aerospace (7.8%) and general machining (7.4%) industries. In France, a large percentage of cutting tools is used in the aerospace, medical and automotive industries, accounting for approximately 16.0%, 13.0% and 12.0% of total consumption. In the case of Italy, cutting tools are mainly used in the oil and gas and mining industry, which accounts for around 12.0% of total consumption. Other major consumers of cutting tools in Italy include the aerospace, automotive, communications, construction and power generation industries, which account for a respective share of between 7.0% and 10.0%. These European consumers used to source their cutting tools locally but have been increasingly seeking cutting tools produced in APAC due to its relative affordability.

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Some of the major countries that are cutting tool consumers in APAC include China, Japan and South Korea. In particular, approximately 17.0% of cutting tools consumed in China were used in the automotive industry. Other major cutting tools end-user industries in China include the aerospace, construction and general machining industries, which account for between 8.0% and 9.0% respectively of cutting tools consumption in the country. In Japan, cutting tools are widely used in the medical industry, which account for approximately 14.0% of total cutting tools consumption. Other major end-user industries in Japan include the communications, automotive, and electronics industries, which account for 10.0%, 9.9% and 7.0% respectively of total cutting tools usage. The major end-user industries in South Korea include the aerospace and automotive industries, accounting for between 12.0% and 12.5% respectively of the total cutting tools consumption. Other major consumers of cutting tools in South Korea include the electronics and medical industries, which account for 9.4% and 8.0% respectively of total cutting tools usage. As cutting tools are essential consumables to the manufacturing process, the production and consumption of these tools in the APAC region is likely to increase with rising manufacturing activities being forecast.

**2.2 Cutting Tools Industry in Malaysia**

Being the primary consumable for the manufacturing process, cutting tools in Malaysia find their place across a wide range of industries including the automotive, E&E, mould and die, oil and gas and solar/photovoltaic industries. Many end products from these industries contribute largely to the country's exports, notably semiconductor products in the E&E industry and solar power generating equipment. Other than that, the cutting tools industry serves as a crucial enabler for the manufacturing landscape in Malaysia and plays a vital role in the country's economic development.

**Figure 2: Historical Market Size and Growth Forecast for the Cutting Tools Industry in Malaysia, 2016-2023**

Year	Market Size (RM Million)	Growth Rate (%)
2016	533.9	-
2017	622.8	16.6
2018	597.6	-4.0
2019	615.5	3.0
2020	634.0	3.0
2021	659.4	4.0
2022	689.0	4.5
2023	720.1	4.5

Note: CAGR (2019-2023) (base year of 2018): 3.8%

Source: Protégé Associates

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The market size of the Malaysian cutting tools industry was estimated at RM597.6 million in 2018, which was a decrease of 4.0% from the previous year. The decrease recorded during the year can be partly attributed to the slowdown in global economic activities caused by the trade war between the United States of America ("US") and China as well as unrest within Europe including the Brexit and economic policy uncertainties. A prolonged trade war or unfavourable developments in Europe can be a drag to the performance of the local cutting tools industry.

The industry can be further broken down into local manufacturers, multinational companies ("MNCs") and local distributors. In terms of exports, Malaysia also recorded RM290.0 million in total export value of cutting tools (based on trade statistics covering HS820750, HS820760, HS820770 and HS820790 codes) in 2018.

The Malaysian cutting tools industry, as with other industries within the manufacturing sector, has been receiving strong government support over the years. This is illustrated by the presence of two major tax incentives in the manufacturing sectors, being the Pioneer Status and the Investment Tax Allowance ("ITA"). Furthermore, the Malaysian Investment Development Authority ("MIDA") is the statutory body that is responsible for the development of the manufacturing sector of the nation continues to assist manufacturing companies by facilitating investments in the sectors, providing relevant information regarding investment opportunities as well as assisting companies that are in search of joint ventures.

### **2.3 Competitive Analysis**

#### **2.3.1 Description of HPMT**

HPMT through its subsidiaries is primarily involved in the manufacturing and distribution of cutting tools. In cutting tool manufacturing, HPMT produces 2 types of cutting tools, namely standard cutting tools and special cutting tools. The cutting tools manufactured by HPMT are mainly made of tungsten carbide. HPMT's customers are given the option to customise the cutting tools in terms of the number of cutting teeth and other features relating to the cutting tool. The distribution of HPMT's cutting tools is then carried out through its sales network which covers more than 30 countries. While HPMT's sales network covers a wide geographical area, the company currently mainly focuses on countries in the European and APAC region. In addition, through its subsidiaries, HPMT also trades a series of cutting tools as well as supporting equipment and accessories and provides physical vapour deposition ("PVD") coating services for third parties.

#### **2.3.2 Competitive Landscape in Europe and APAC**

The global cutting tools industry is fragmented and can be generally divided into three groups namely the well-established global leaders, medium-sized companies challenging the international market (international players) as well as small local companies catering for their home markets. Global leaders mainly consist of large MNCs with their products reaching many parts of the world as a result of their wide distribution network. These players are also perceived to have the highest quality products with relatively more costly prices. International players have similar operations as the global leaders but tend to have a smaller international presence and generally focus on selected regions. Examples of international players include NS Tool Co., Ltd and Halcyon Technology Public Co., Ltd. On the other hand, small local players tend to focus on their home country and generally only serve a handful of customers. In the case of HPMT, the company is considered a medium-sized company as it has both regional and local presence. Hence, HPMT competes under both regional and local competitive landscapes.

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Manufacturers of cutting tools in the European region put an emphasis towards producing cutting tools with specific application or functions. Research and development ("R&D") and product development activities are active in this region, and the European cutting tools industry is often viewed as the innovators in product development and technological advancement in terms of application support and rollout of new features in products. Cutting tools manufactured from this region are typically of higher quality but are also costlier as compared to those from the APAC region. Much of the consumption of cutting tools in the region is driven by manufacturing activities in the automotive, general engineering/machining and metal fabrication industries.

The APAC region has over the past few years slowly become the preferred outsourcing hub for foreign cutting tool manufacturers due to lower wage costs and generally less stringent regulations as compared to other regions. Many governments of APAC countries provide various incentives such as subsidies and tax cuts in manufacturing as a means to spur growth in the industrial sector and to encourage foreign investments within the manufacturing industry. Cutting tools produced in this region are also more competitively priced as compared to those manufactured in Europe and North America.

As an international player with operations spanning various countries mainly in APAC and Europe, HPMT's revenue derived from its operations in APAC and Europe for the FYE 31 December 2018 was RM84.9 million, which is equivalent to less than 1 percent of the cutting tools industry in APAC and Europe in 2018. The market share is derived by dividing HPMT's total revenue from APAC and Europe of RM84.9 million for the FYE 31 December 2018 with the estimated value of the cutting tools industry in APAC and Europe which is estimated to be USD14.78 billion (equivalent to RM61.13 billion based on an exchange rate of USD1 = RM4.1360 on 31 December 2018).

### **2.3.3 Competitive Landscape in Malaysia**

The cutting tools industry in Malaysia can be generally divided into three groups of market players namely MNCs, local manufacturers and local distributors. The MNCs are mainly subsidiaries of an overseas parent and generally do not have manufacturing plants in Malaysia. They also generally only distribute their own house brand products. Some of these MNCs operating in Malaysia include Sandvik Malaysia Sdn Bhd, Walter Malaysia Sdn Bhd and Fujikoshi-Nachi (Malaysia) Sdn Bhd. Local manufacturers are companies that manufacture and distribute cutting tools to local and overseas end-users directly or through distributors. Local manufacturers generally produce their own house brand products but sometimes also serve as OEM for other brands. Some of the local manufacturers in Malaysia include Precisetech Sdn Bhd, GET Manufacturing Sdn Bhd (formerly known as Global Excel Tools Manufacturing Sdn Bhd) and LY Tools Technologies Sdn Bhd. Distributors act as an intermediary for other companies and generally distribute products from more than one manufacturer and often also distribute a series of other products in addition to cutting tools. Some of the distributors in Malaysia include Secure Tooling Systems Sdn Bhd, LCH Tooling Sdn Bhd and Winly Tooling (Malaysia) Sdn Bhd. In 2018, it was estimated that there were approximately 50 market players operating in the Malaysian cutting tool industry. Of this, MNCs and local manufacturers accounted for approximately half of the industry in terms of number of market players while distributors made up the remaining. In terms of contribution by revenue, MNCs and local distributors contributed around 87% of the total revenue with the local manufacturers accounting for the remaining of the market size. Meanwhile, the export market from Malaysia is mainly participated by local manufacturers while MNC and distributors carry out re-exporting activities.

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The barriers to entry into the cutting tools industry are moderate as there are less stringent regulations associated with cutting tools manufacturing as compared to other manufacturing industries, wide access to raw materials such as steel and the moderate amount of capital required for the purchasing of industrial machines for the production of such tools. However, market players are likely to encounter several notable challenges such as requiring a proven track record and industry specific metalworking specialisation and skills before they may be able to penetrate the higher ends of the cutting tools industry.

HPMT derives its revenue from local and overseas operations. HPMT's revenue from its local operations for the FYE 31 December 2018 was RM17.0 million, which is equivalent to 2.8% of the cutting tools industry in Malaysia. The market share is derived by dividing HPMT's revenue from local operations of RM17.0 million for the FYE 31 December 2018 over RM597.6 million, the Malaysia market size for cutting tools industry value in 2018.

As for HPMT's overseas operations, HPMT recorded for the FYE 31 December 2018 a total of RM68.3 million, which is equivalent to approximately 23.6% of the exported cutting tools industry from Malaysia. The market share is derived by dividing HPMT's revenue from overseas operations of RM68.3 million for the FYE 31 December 2018 over RM290.0 million, being the total export value of cutting tools from Malaysia in 2018.

#### **2.3.4 Comparable Industry Players**

Protégé Associates has selected international players and Malaysian established cutting tool manufacturers for as companies of comparison to HPMT.

Protégé Associates has used the following criteria when selecting market players in Malaysia for comparison with HPMT. Market players that are comparable to HPMT must be/ have:

- Local manufacturers involved in the manufacturing of cutting tools in Malaysia
- Registered an annual revenue of more than RM2 million

The above criteria are used to further narrow down the list of companies that can be selected for comparison with HPMT. It needs to be highlighted that the list of companies used for comparison purposes is not exhaustive and only serves as a reference for readers. For a regional perspective, Protégé Associates has selected industry players that are considered international players like HPMT and are based in APAC for comparison purpose.

**Figure 3: Comparison between HPMT and Selected Market Players in the Cutting Tools Industry**

Company Name	Principal Activities	Financial Year/ Period	Revenue (RM million)
<b>Regional Competitors</b>			
Halcyon Technology Public Co., Ltd (Thailand-based company)	Manufacturing, customised production and distribution of polycrystalline diamond, natural diamond, polycrystalline carbon boron and special carbide cutting tools for high-precision parts to serve the manufacturers of electronic parts, automotive parts, and other mechanical related industries	31-12-2018	141.9

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Company Name	Principal Activities	Financial Year/ Period	Revenue (RM million)
	domestically and overseas.		
NS Tool Co., Ltd (Japan-based company)	Manufacture and sale of cutting tools.	31-03-2018	355.3
<b>Malaysian Competitors</b>			
PreciseTech Sdn Bhd	Manufacturing of cutting tools	31-12-2017	6.8
GET Manufacturing Sdn Bhd) (formerly known as Global Excel Tools Manufacturing Sdn Bhd)	Manufacturing of precision cutting tools and related products.	31-12-2017*	11.9
LY Tools Technologies Sdn Bhd	Manufacturing and trading of drills, end mills, slitting saw, reamers, brazed tools, advance coating services and precision resharpening services	30-06-2018	5.0
HPMT	Investment holding company with subsidiaries involved in manufacturing and distribution of solid carbide cutting tools and supporting equipment for metalworking operations as well as provision of physical vaporisation deposition coating services.	31-12-2018	85.3

*Notes:*

\* The financial information presented is for the 15-month period ended 31 December 2017 as the company had changed its financial year end from 30 September to 31 December

- 1) The financial figures of the selected market players are updated to 23 April 2019
- 2) Halcyon Technology Public Co., Ltd's revenue of THB1.12 billion for the Financial Year Ended 31 December 2018 was converted to RM based on an exchange rate of THB1 = RM0.126930 on 31 December 2018
- 3) NS Tool Co., Ltd's revenue of JPY9,767.0 million for the Financial Year Ended 31 March 2018 was converted to RM based on an exchange rate of JPY1 = RM0.03638 on 30 March 2018

Sources: Companies Commission of Malaysia, annual reports of Halcyon Technology Public Co., Ltd and NS Tool Co., Ltd and Protégé Associates



**8. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT****2.4 Demand and Supply Conditions**

Demand and supply conditions refer to market factors that can positively or negatively affect future market size and growth by specifically altering demand or supply dynamics. The below are demand and supply conditions affecting the value and growth of the cutting tools industry in Malaysia.

**2.4.1 Demand Conditions**

**Figure 4: Demand Conditions Affecting the Cutting Tools Industry in Malaysia, 2019-2023**

Impact	Demand Condition	Short-Term	Medium-Term	Long-Term
		2019-2020	2021-2022	2023
+	Broad Range of Cutting Tools' End-User Markets	High	High	High
+	Increasing Focus towards Manufacturing Efficiency and Productivity	High	High	High
+	Expansion in the Global Economy	Low	Medium	Medium

Source: Protégé Associates

**Broad Range of Cutting Tools' End-User Markets**

Cutting tools find their place in a wide variety of end-user markets due to their vital importance in the manufacturing process. These include, among others, the oil and gas, mould and die, automotive, E&E, machinery/ general engineering, aerospace and medical devices industries. By having a broad range of end-user markets, the cutting tools industry is able to benefit from the demands from all the related industries, leaving ample room for market expansion.

**Increasing Focus towards Manufacturing Efficiency and Productivity**

Manufacturers now have been putting large emphasis towards increasing production efficiency and manufacturing productivity. This is achieved via the reduction of human labour and incorporation of machine tools and automation within the manufacturing process flow. The increase in reliance of machine tools and automation by manufacturers which drives the consumption of cutting tools and bodes well for the development of the cutting tools industry.

**Expansion in the Global Economy**

As demand for cutting tools is associated with market demand from various industries that are involved in manufacturing, the state of the global economy will have a significant impact towards the cutting tools industry. Unfavourable economic conditions will lead to the deterioration of its end-user businesses and vice-versa. While the global economy continued to grow in 2018, it expanded at a slower pace of 3.6% in 2018 as compared to 3.8% in 2017. The slowdown can be attributed to the ongoing trade war between the US and China as well as economic policy uncertainties in Europe. The global economy is projected to grow at 3.3% in 2019. While economic growth is expected to be slower, the growth is still expected to continue supporting demand for cutting tools.

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**2.4.2 Supply Conditions****Figure 5: Supply Conditions Affecting the Cutting Tools Industry in Malaysia, 2019-2023**

Impact	Demand Condition	Short-Term	Medium-Term	Long-Term
		2019-2020	2021-2022	2023
+	Continuing Support from the Government in the Manufacturing Sector	High	High	High
+	High Levels of Product Development Activities Among Market Players Hasten the Rollout of Improved Cutting Tool Products	Medium	Medium	Medium

Source: Protégé Associates

**Continuing Support from the Government in the Manufacturing Sector**

The Malaysian Government has been supportive of the country's manufacturing sector, illustrated by the presence of various tax incentives for companies participating in the sector. The two major tax incentives being offered in the manufacturing sector are the Pioneer Status and the Investment Tax Allowance ("ITA"). These incentives encourage further growth in the manufacturing sector, leaving beneficial downstream effects for the cutting tools industry as many manufacturers utilise cutting tools in their processes. Furthermore, the Government has also come out with various initiatives such as the Income Tax Incentive for the Industry 4.0 Readiness Assessment and Income Tax Incentive for Industry4WRD Vendor Development Program aimed at attracting companies in the manufacturing and manufacturing-related services sectors towards the application of Industry 4.0 technology. This is expected to boost the growth of the manufacturing sector and presents an opportunity for growth for the cutting tools industry as well.

**High Levels of Product Development and R&D Activities among Market Players Hasten the Rollout of Improved Cutting Tool Products**

Many of the end-user markets of the cutting tools industry are involved in high levels of product development and R&D activities, notably the E&E and medical devices industries. This high commitment to product development and innovation is necessary to keep up with modern day technology advancements and for maintaining their relevance in their respective industries. This inherently spurs the need for the development of improved and more efficient cutting tools as a means to satisfy the ever-evolving needs of their end-user markets, encouraging continuous growth within the cutting tools industry.

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**3.0 Prospects and Outlook of Industry**

The global cutting tools market is expected to embark on an expansionary trend for the forecast period from 2019 to 2023. One of the key drivers of the industry comes from growth in the automotive industry. The automotive industry is currently the largest end-user market of cutting tools, accounting for approximately 12.0% of global cutting tools consumption. At present, China is the largest producer of vehicles, followed by Europe and North America. Demand from these locations for cutting tools used in the automotive industry is expected to remain strong going forward. Demand from the aircraft and aerospace manufacturing industry, which is also a major consumer of cutting tools, is also expected to remain relatively strong during the forecast period. Increases in demand for cutting tools within the industry is expected to mainly come from emerging markets such as China, India and Russia. Steady income growth has also prompted an increase in air travel, thus supporting manufacturing of commercial aircrafts.

In addition, the expansion in the medical research industry is also expected to support demand growth for cutting tools. The industry is currently one of largest consumers of cutting tools in the world, with advanced economies such as the US, Japan, France and Germany being the some of the largest end-user countries. The growth in global middle-income class and expanding urban populations has led to increased demand for energy. As such, a steady increase in the usage of cutting tools in the power generation industry is also expected in the near future. Cutting tools are used in the manufacturing of various applications including turbine blades, solar panels and other related components used for power generation. The mould and die industry is yet another major consumer of cutting tools.

The wide usage of thermoplastics in the manufacturing of consumer goods and a wide range of components of everyday products is expected to support the demand for injection moulds, which in turn drives demand for machining and cutting tools. There is also steady demand for cutting tools used in the electronics industry. The expansion in the global electronics industry along rising global income is expected to increase demand for these electronic products, and in turn increase the demand for cutting tools which are used in the manufacturing process of electronics.

Similarly, the cutting tools industry in Malaysia also faces a positive outlook and is forecast to grow throughout the forecast period from 2019 to 2023. The cutting tools industry plays a vital role in the manufacturing process of a wide variety of end-user markets. The expansion in any of these industries is expected to translate to an increased demand for cutting tools. At the same time, although economic growth is expected to be slower, expansion in the global economy is still expected to support the expansion of various industries across the globe and in turn, spur demand for cutting tools. In addition, with manufacturers now putting more emphasis towards production efficiency and manufacturing productivity, the greater adoption of machine tools and automation within the manufacturing process is expected to drive the consumption of cutting tools.

In terms of supply, the cutting tools industry is expected to benefit from the encouraging support from the Malaysian Government in providing various tax incentives for companies participating in the manufacturing sector, as well as the allocation of funds to upgrade manufacturing facilities. The Malaysian cutting tools industry is also set to benefit from the high commitment to product development and R&D activities of its various end-user markets, which in-turn also encourages the growth within the cutting tools industry to remain relevant in the ever-evolving business environment.

## **9. RISK FACTORS**

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**IN EVALUATING AN INVESTMENT OF OUR IPO SHARES, YOU SHOULD CAREFULLY CONSIDER ALL INFORMATION CONTAINED IN THIS PROSPECTUS INCLUDING BUT NOT LIMITED TO THE FOLLOWING INVESTMENT CONSIDERATIONS AND RISKS.**

### **9.1 RISKS AFFECTING OUR BUSINESS AND OPERATIONS**

#### **9.1.1 Risks relating to production capacity expansion**

Our future growth depends on us achieving our future plans, which include, among others, increasing our production capacity by 43.5% from 148,200 pieces per month as at 31 December 2018 to 212,600 pieces per month as at 31 December 2021. This requires substantial capital expenditure, and we have allocated about 80.3% of the proceeds from the Public Issue to purchase new machineries and equipment for this purpose.

We cannot assure you that we will be successful in achieving our planned increase in production capacity. If there is a decrease in demand for our products from our customers, we may be required to delay or reduce our production capacity expansion plan. Further, an unanticipated increase in the prices of the machineries and equipment used in our production activities or unfavourable movements in foreign exchange rates may also lead to higher costs than anticipated for our capacity expansion plan.

We are also subject to risks that may arise after we have incurred capital expenditure and increased our production capacity. There is no assurance that we will be able to grow or maintain our market share as we cannot assure you that our products will continue to appeal to our customers. Should our customers choose to purchase products from our competitors, we may not be able to maintain or expand our position in the market for our products notwithstanding that we have increased our production capacity. We are also subject to the risk of a build-up in finished goods inventories if the anticipated increase in demand for our products which has led to the decision to expand our production capacity is not realised. Lower than anticipated demand for our products may also lead to an underutilisation of our production capacity, which may result in lower profit margins due to higher overhead costs associated with the increased machineries and equipment.

Should any of the above arise, our ability to successfully implement our future plans may be adversely affected.

#### **9.1.2 Foreign exchange rate fluctuations**

Most of our cutting tools are exported to foreign countries, with more than 80.0% of our revenue for the Period under Review being derived from export sales, which are paid for in currencies other than RM. This inherently subjects us to currency exchange rate risks which are affected by a myriad of factors that are beyond our control, including but not limited to political and economic climates of Malaysia and the world. Our revenue increased from RM68.9 million for FYE 2015 to RM85.3 million for FYE 2018, which was partly due to fluctuation in foreign currencies (mainly EUR and USD) against the RM during the Period under Review (see Section 13.3.4.1 of this Prospectus). Although we have not incurred any material losses arising from foreign currency translations for the Period under Review, if the foreign exchange rates were to weaken against the RM going forward, we may record lower revenue as most of our sales are conducted in foreign currency. This may have a negative impact on our financial results.

At the same time, as most of our raw materials for the production of cutting tools are purchased in foreign currencies, any unfavourable foreign currency fluctuations may negatively affect our cost of operations.

## 9. RISK FACTORS

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Our foreign exchange risk is mitigated to a certain extent as the nature of our operations warrants the use of our revenue to pay for the purchases and finance costs denominated in the same foreign currency. This would therefore provide, to a certain extent, a natural hedge against foreign exchange fluctuations. In addition to the above, we had used forward currency contracts to partially manage our transaction exposure. We did not record any unrealised gains or losses from the use of forward currency contracts for the Period under Review as the differences in fair value were not material. As at the LPD, we do not have outstanding forward currency contracts. However, we may enter into forward currency contracts to hedge the foreign currency exposure in the future if deemed necessary. Notwithstanding the above, we cannot guarantee that the use of such forward currency contracts, if any, will completely eliminate our exposure to fluctuations in foreign exchange rates.

See Section 13.3.2.2 of this Prospectus for further information on the effects of foreign exchange rate fluctuation on our financial results and for the breakdown of foreign-denominated sales and purchases by currency as well as our foreign exchange gain and loss during the Period under Review. See also Section 13.4.4 of this Prospectus for further information on our use of forward currency contracts to manage our transaction exposure.

### 9.1.3 Raw material availability and price fluctuations

The main raw material we use in the manufacturing of cutting tools is tungsten carbide rods. The cost of tungsten carbide rods accounted for approximately 43.4%, 39.7%, 36.0% and 33.5% of our total cost of sales for FYE 2015, FYE 2016, FYE 2017 and FYE 2018 respectively. Tungsten, carbon and cobalt are the main mineral components required to produce tungsten carbide. Tungsten and cobalt are global commodities which may experience fluctuations in pricing and availability due to variations in demand, unforeseen circumstances that are beyond our control. Any fluctuations in prices of these commodities may cause an increase in the price at which we purchase tungsten carbide rods, which may increase our cost of production, and there is no assurance that we will be able to pass on such cost to our distributors and end-users. For FYE 2015 to FYE 2017, the price of raw materials quoted by our suppliers had generally decreased, and as we purchased, converted and ultimately sold the lower-priced raw materials, this had contributed to our financial results. In FYE 2018 however, the price of raw materials quoted by our suppliers increased, which had affected our cost of sales for the financial year. A prolonged material increase in the price of raw materials may affect our financial results.

For the Period under Review, we were dependent on Xiamen Golden Egret as our main supplier of tungsten carbide rods, which accounted for approximately 48.8%, 41.3%, 48.2% and 50.8% of our total purchase value for FYE 2015, FYE 2016, FYE 2017 and FYE 2018 respectively. While we have not been affected by any disruption to our supply of tungsten carbide rods that have had a material adverse impact on us during the Period under Review, in the event of any delay or disruption to the supply of tungsten carbide rods, we may be unable to source for tungsten carbide rods which meets our specifications from alternative suppliers in a timely manner and at competitive prices. This may potentially affect the quality of our products or disrupt our operations and result in us not being able to meet our contractual obligations to our customers, which may in turn affect the results of our operations. For discussion on our dependency on our major supplier, see Section 7.16 of this Prospectus.

## **9. RISK FACTORS**

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### **9.1.4 Fluctuations in our financial performance**

The pricing of our cutting tools varies from customer to customer depending on, among others, the size and specifications of the cutting tools. However, as most of our revenue is derived from export sales, the sales revenue that we recognise in RM also depend on prevailing foreign currency exchange rates (mainly EUR and USD). Accordingly, our financial performance will be affected by fluctuations in the foreign currency exchange rates that our sales are transacted in. In addition, our main raw material, tungsten carbide rods, is produced mainly from tungsten, carbon and cobalt, and we purchase tungsten carbide rods in USD. Fluctuations in the pricing of global commodities such as tungsten and cobalt as well as fluctuations in the USD-to-RM exchange rate may increase the price at which we purchase tungsten carbide rods, which will subsequently lead to an increase in our raw material cost when our products are sold. As raw material cost is the main component of our cost of sales, such fluctuations may have a material adverse impact on our financial performance.

As set out in Section 13.3.4.1 of this Prospectus, the increase in revenue from the Malaysian, European and Asian markets and appreciation in foreign currencies (mainly EUR and USD) against the RM has partly contributed to the increase in revenue for FYE 2015 to FYE 2017. In addition, the price of raw materials that quoted by our suppliers generally decreased for FYE 2015 to FYE 2017, which has contributed to a decrease in the cost of raw materials when we converted the lower-priced raw materials into finished goods, which were eventually sold (see Section 13.3.4.2 of this Prospectus). Our GP margins were 43.6%, 43.5% and 49.2% for FYE 2015, FYE 2016 and FYE 2017 respectively.

In FYE 2018, however, foreign currencies (mainly EUR and USD) depreciated against the RM, and this has partly contributed to the decrease in revenue of our manufacturing segment for FYE 2018. Due to increased competition, we also encountered lower sales and average selling prices in China. We also recorded substantially larger increases in our labour cost in FYE 2018, even though our cost of raw materials only marginally increased in FYE 2018. These factors led to a decrease in our GP margin to 44.2% for FYE 2018.

We cannot assure you that such historical GP margin can be sustained in the future. In particular, we cannot assure you that we will continue to be able to achieve favourable foreign currency exchange rates for our export sales. We also cannot assure you that we will continue to be able to purchase tungsten carbide rods at competitive prices. Given the recent uncertainties in the domestic and global economies, fluctuations in the foreign currency exchange rates may materially and adversely affect our revenue and cost of sales, and in turn our GP margin. If there is a further decline in our overall GP margin, our future profitability and financial performance may be materially and adversely affected.

### **9.1.5 Dependence on our key management and skilled personnel**

Our continued success and growth depends on the abilities, skills, experience and efforts on our key management and skilled personnel. Each member of our key management team has more than 10 years of industry experience and expertise across various key business functions. Our founder, Ku He @ Khoo Yee Her, has almost 40 years of experience in the cutting tools industry. We are also dependent on our R&D and technical personnel to handle all technical aspects of our business operations and to drive our R&D efforts to develop new cutting tools.

## **9. RISK FACTORS**

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Skilled personnel with the appropriate experience in our industry are limited and competition for the employment of such personnel is intense. A loss of such experienced management personnel without suitable and timely replacements could have a material adverse impact on our competitiveness, business and operations. There is no assurance that there will be no loss of any of our key management or our management succession plans will be successful in grooming successors. Furthermore, in the event that we need to increase employee compensation levels substantially to attract and/or retain any key management personnel or skilled personnel, our costs may increase and our financial performance may be materially and adversely affected.

### **9.1.6 Absence of long-term contracts with our customers**

We do not enter into any long-term contracts with our customers as we manufacture based on confirmed orders. While we have established long-term business relationships with our customers, our customers have historically made purchases from us through purchase orders as and when they require our cutting tools and they have not committed to long-term purchase contracts in the past.

Therefore, there can be no assurance that they will not significantly reduce their orders or continue making purchases from us in the future. There also can be no assurance that business relationships with these customers will remain cordial or that they would continue to be satisfied with our products. If our customers were to substitute purchases from us with purchases from sources other than our Group and if we are unable to secure alternative orders of comparable size, whether from new or existing customers, our business, financial condition, results of operations and/or prospects could be materially and adversely affected.

### **9.1.7 Disruption to our manufacturing facility**

We operate one manufacturing facility based in Shah Alam, Malaysia. Our business operations are heavily dependent on the operation of the manufacturing facility and any unexpected disruption to such manufacturing facility as a result of machine down-time due to maintenance, machine breakdown or malfunction or power failure may cause a production halt or delay in our production process, which may affect our production schedule and prevent us from completing our customers' purchase orders on time. This may adversely affect our business reputation, production volume or require us to make unplanned capital expenditures.

Over the Period under Review, we have not encountered any disruption to our manufacturing facility which has had a significant effect on our operations. However, we cannot assure that there will be no disruption at our manufacturing facility in the future, and if any disruption occurs, our business performance and results of operations may be materially and adversely affected.

### **9.1.8 Failure to develop competitive products that meet customer requirements**

Cutting tool manufacturers are constantly exploring every aspect of cutting tool technology to produce the perfect cutting tool that will increase productivity, cost efficiency and consistency. The advances in cutting tools technology are driven by various factors such as the demand for higher productivity and reduced cycle time, the emergence of new workpiece materials and the evolution of manufacturing processes.

Over the years, cutting tools have advanced into many different shapes, forms, sizes and specifications to cater for different end-user industries they service. New materials, advanced coatings and non-traditional cutting techniques are being constantly developed to prolong the life of the cutting tool.



## **9. RISK FACTORS**

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There is no assurance that our existing and/or potential competitors will not develop products which are similar or superior to our products. The introduction of new products by our competitors that have better performance may reduce the demand for our existing products, which may materially and adversely affect our financial performance. At the same time, we also cannot assure you that our R&D team will be able to continuously develop and launch new products that are able to meet our customers' requirements, achieve technological feasibility or gain market acceptance. Unsatisfactory response from customers for our products may also adversely affect our ability to generate more sales. Our inability to commercialise new products may have an adverse impact on our business operations and financial performance.

### **9.1.9 Failure to develop our sales network**

One of our future plans include developing our sales network. To achieve this, we intend to expand our sales teams in the local and overseas markets to support our business expansion by employing new technical/sales engineers to conduct sales and provide technical support to our customers. However, there is no assurance that we will be able to hire new employees or retain existing dedicated employees that are able to positively contribute towards developing our sales network.

At the same time, we intend to continue our international expansion to new countries. While we participate in international trade exhibitions such as EMO and AMB, there is no assurance that we will be successful in engaging new distributors for our products in existing or new markets. As such, we cannot assure you that we will be successful in maintaining or expanding our position in our existing markets or broaden our sales network to new markets.

### **9.1.10 Dependence on our top 5 customers**

As set out in Section 7.15 of this Prospectus, based on our financial statements for the Period under Review, we are dependent on our top 5 customers which contributed a total of 32.9%, 33.1%, 37.4% and 36.0% to our total revenue for FYE 2015, FYE 2016, FYE 2017 and FYE 2018, respectively.

There is no assurance that these customers will continue to purchase our products in the future as we do not have minimum purchase agreements with them. If these customers discontinue their business relationships with us, we may not be able to secure other customers who are able to contribute similar proportion of revenue on a timely basis. Hence, our ability to grow may be materially and adversely affected.

Additionally, we intend to expand our production capacity by more than 40.0% by the end of FYE 2021. If our top 5 customers discontinue their business relationships with us, we may not be able to achieve our production capacity expansion plans as set out in Sections 4.8.1, 4.8.2 and 7.12.1 of this Prospectus.

## **9.2 RISKS AFFECTING THE INDUSTRY IN WHICH WE OPERATE**

### **9.2.1 We face intense competition within the industry**

The cutting tools industry both in Malaysia and globally is fragmented and we compete with other local and global manufacturers of cutting tools. We generally compete with our competitors on a variety of factors, such as reputation, product design and development, delivery times, product range and quality, customer service and relationships with suppliers and customers.



## **9. RISK FACTORS**

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We cannot ensure that we will always be able to compete effectively with our existing competitors and new market entrants. Some of our competitors may have longer operating history than us or are better known brands within the cutting tools industry or possess greater financial, marketing and other resources. If our competitors are willing to sell their products at lower prices, it may lead to an increased pressure on us to maintain competitiveness by lowering the prices of our products. Increased competition may result in lower demand for our products, lower profit margins and/or loss of market share.

If we fail to compete effectively, adapt quickly to changing market conditions and trends and maintain or grow our market share, our business and results of operations may be adversely affected.

### **9.2.2 Highly dependent on the manufacturing activities of end-user industries**

Cutting tools are attachments for machines that cut and form metals and serves as an integral enabler for businesses that are involved in manufacturing. This includes a variety of end-users, such as those in the electrical and electronics, automotive, aerospace and medical devices industries. As such, demand for our products is highly correlated to the performance of the end-user industries as any increase in manufacturing activities can increase the use of cutting tools. Accordingly, any downturn in the performance of end-user industries may have a negative impact on our financial performance. The possible risks to the performance of end-user industries include trade barriers, such as higher tariffs imposed on our customers' products, and a rising interest rate environment that can hurt consumer sentiment, leading to dampened demand for our customers' products. If demand for the products of our customers decrease, the production activities of our customers are likely to decrease, leading to lower demand for our products.

### **9.2.3 Political, legal, regulatory or economic conditions of the countries where we transact business**

We derive a significant portion of our revenue from our export markets. Any adverse developments or uncertainties in political, legal, regulatory or economic conditions in Malaysia and the other countries that we operate in could unfavourably affect our financial and business prospects. These risks include unfavourable changes in political conditions, economic conditions, interest rates, government policies and regulations, import and export restrictions, duties and tariffs, civil unrest, methods of taxation and inflation. While we have not faced any material changes in such circumstances during the Period under Review, there is no assurance that we will not experience such circumstances in the future.

Further information on material regulatory requirements in Malaysia and in countries where our foreign Subsidiaries operate is set out in Annexure D of this Prospectus.

We also enjoy recognition under certain bilateral trade schemes between Malaysia and other countries, such as China, Korea, India, Thailand, the Philippines and Turkey, which provide preferential export duties for export of goods to such other countries. There can be no assurance that we will continue to enjoy such recognition or that such bilateral trade schemes will continue to be in force. In the event that we cease to be able to enjoy the benefit of such trade schemes, the demand for our products by our customers purchasing our products in the relevant country may be adversely affected.

A slowdown in the local and global economy may also have an adverse impact on the demand of our products and services, negatively affecting our business operations and financial performance.

## **9. RISK FACTORS**

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### **9.3 RISKS AFFECTING OUR SHARES**

#### **9.3.1 Delay or failure of our Listing**

Certain events may cause a delay in or cancellation of our Listing, such as:

- (i) the Underwriter exercising its rights pursuant to the Underwriting Agreement to discharge itself from its obligation thereunder;
- (ii) we are unable to meet the public shareholding spread requirement of the Listing Requirements, i.e. at least 25% of our Shares for which Listing is sought must be held by a minimum number of 1,000 public shareholders holding not less than 100 Shares each at the point of our Listing; or
- (iii) the revocation of approvals from the relevant authorities prior to our Listing and/or admission to the Official List for whatever reason.

If any of the above events occurs, investors will not receive any of our IPO Shares and we will return in full (without interest) all monies paid in respect of any application for our IPO Shares in compliance with subsection 243(2) of the CMSA. However, if our IPO Shares have already been issued and allotted to investors, we may only be able to repay the monies paid in respect of our IPO Shares by a cancellation of our IPO Shares pursuant to a capital reduction exercise in accordance with Section 116 or 117 of CA 2016. Such a capital reduction exercise will require us to obtain a special resolution from our shareholders and may also require us to obtain confirmation by the High Court of Malaya in accordance with Section 116 of CA 2016 or a supporting solvency statement in accordance with Section 117 of CA 2016. Therefore, there is a risk that monies paid in respect of our IPO Shares cannot be recovered in a timely manner.

#### **9.3.2 No prior market for our Shares and it is uncertain whether a sustainable market will ever develop**

Prior to our IPO, there has been no public market for our Shares. Hence, there is a risk that upon Listing, an active market for our Shares may not develop, or if developed, whether such a market can be sustained. There is also no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares. The IPO Price was determined after taking into consideration various factors and we believe that a variety of factors could cause our Share price to fluctuate which may adversely affect the market price of our Shares.

Therefore, there is a risk of whether the IPO Price will correspond to the price at which our Shares will trade on the Main Market of Bursa Securities upon our Listing and also a risk that the market price of our Shares may decline below the IPO Price.

## **9. RISK FACTORS**

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### **9.3.3 The interest of our Promoters who controls our Group may not be aligned with the interest of our shareholders**

Our Promoters will hold a controlling interest in our enlarged issued share capital upon Listing. As a result, our Promoters will be able to, in the foreseeable future, have effective control over the business direction and management of our Company including the election of directors, the timing and payment of dividends as well as having voting control and as such, will likely influence the outcome of certain matters requiring the vote of our shareholders, unless he and persons connected with him are required to abstain from voting either by requirement of law and/or by the relevant guidelines or regulations. Therefore, there is a risk of whether the interests of our Promoters will be aligned with those of our other shareholders.

### **9.3.4 Payment of dividends**

Our ability to declare dividends to our shareholders will depend on, among others, our future financial performance, distributable reserves and cash flows. This, in turn, is dependent on our operating results, capital requirements and on our ability to implement our future plans, demand for and selling prices of our products, general economic conditions, and other factors specific to our industry, many of which are beyond our control. As such, there is no assurance that we will be able to pay dividends to our shareholders.

The receipt of dividends from our Subsidiaries may also be affected by the passage of new laws, adoption of new regulations and other events outside our control, and our Subsidiaries may not continue to meet the applicable legal and regulatory requirements for the payment of dividends in the future. In addition, changes in accounting standards may also affect the ability of our Subsidiaries, and consequently, our ability to pay dividends.

Dividend payments are not guaranteed and our Board may decide, at its sole and absolute discretion, at any time and for any reason, not to pay dividends. If we do not pay dividends, or pay dividends at levels lower than that anticipated by investors, the market price of our Shares may be negatively affected and the value of any investment in our Shares may be reduced.

For a description of our dividend policy, please refer to Section 13.8 of this Prospectus.

### **9.3.5 Volatility of share prices traded on Bursa Securities**

The performance of Bursa Securities is also very much dependent on external factors such as the performance of the regional and global bourses and the inflow or outflow of foreign funds besides internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of share prices witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

It is expected that there will be about 10 Market Days after the close of our IPO before the commencement of trading of our Shares on Bursa Securities. We cannot assure you that there will be no event or occurrence that will have an adverse impact on the securities market, our industry or us specifically during this period that would adversely affect the market price of our Shares when they begin trading.

In addition, the market price of our Shares may be highly volatile and could fluctuate significantly and rapidly in response to, among others, the following factors, some of which are beyond our control:

- (i) material variations in our financial performance and operations;

**9. RISK FACTORS**

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- (ii) success or failure of our key senior management team in implementing business and growth strategies;
- (iii) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;
- (iv) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;
- (v) additions or departures of our key senior management personnel;
- (vi) fluctuations in stock market prices and trading volumes; or
- (vii) involvement in litigation.

## 10. APPROVALS AND CONDITIONS

### 10.1 APPROVALS AND CONDITIONS

#### 10.1.1 Bursa Securities

Bursa Securities has, via its letter dated 2 May 2019, approved our admission to the Official List and the listing of and quotation for our entire enlarged issued share capital of 328,489,000 Shares on the Main Market of Bursa Securities.

#### 10.1.2 SC

The SC has, via its letter dated 30 January 2019, approved our IPO and Listing under Section 214(1) of the CMSA. The conditions imposed by the SC and status of compliance with the conditions are as follows:

Conditions	Status of compliance
HLIB and HPMT to fully comply with the requirements of the Equity Guidelines and Prospectus Guidelines pertaining to the implementation of the Listing.	To be complied

The SC has also, via the same letter, approved our application under the equity requirement for public listed companies in relation to our resultant equity structure pursuant to the Listing, the effects of which are as follows:

Category of shareholders	As at 31 August 2018		After the Acquisitions		After the Listing	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<b>Bumiputera</b>						
Malaysian public via balloting	-	-	-	-	8,213,000	2.5
Bumiputera investors to be approved by MITI	-	-	-	-	32,849,000	10.0
<b>Total Bumiputera</b>	-	-	-	-	41,062,000	12.5
Non-Bumiputera	2	100.0	252,936,000	100.0	287,427,000	87.5
<b>Total Malaysian</b>	<b>2</b>	<b>100.0</b>	<b>252,936,000</b>	<b>100.0</b>	<b>328,489,000</b>	<b>100.0</b>
Foreigner	-	-	-	-	-	-
<b>Total</b>	<b>2</b>	<b>100.0</b>	<b>252,936,000</b>	<b>100.0</b>	<b>328,489,000</b>	<b>100.0</b>

#### 10.1.3 Waiver

The SC has, via its letter dated 13 July 2018, approved a relief sought by us from having to comply with a provision of the Prospectus Guidelines. The details of the relief sought are as follows:

Prospectus Guidelines	Details of relief granted	Conditions imposed	Status of compliance
Paragraph 5.10 of Part II of Division 1 of the Prospectus Guidelines	Relief was sought from the SC to redact the name of three major customers	Nil	N/A

## **10. APPROVALS AND CONDITIONS**

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### **10.1.4 MITI**

The MITI has, via its letters dated 7 January 2019 and 19 April 2019, agreed to take note of and has no objection to our Listing.

### **10.2 MORATORIUM ON OUR SHARES**

In compliance with the Equity Guidelines, Herroz Mechanical has provided its written undertaking that it will not sell, transfer or assign its entire shareholdings in our Company of 205,578,000 Shares (which represents 62.6% of the enlarged number of Shares after our IPO), for a period of 6 months from the date of Listing.

Separately, the following persons shall also observe the respective moratorium as set out below:

- (i) the shareholders of Herroz Mechanical, namely HPMT Capital, Dato' Khoo Ah Chye, Gan Soh Fei, Ho Koon Leng, Hsu Chen Yun, Khoo Gee Keat, Lee Chih Hsien, Neeleng Khoo, Neely Khoo, Neexon Khoo, Poong Keen Kiong, Lim Hooi Kheng, Tan Kim Chuan, Wong Chew Kong and Yoong Kam Sing have undertaken not to sell, transfer or assign their respective shareholdings in Herroz Mechanical for a period of 6 months from the date of Listing; and
- (ii) the shareholders of HPMT Capital, namely Ku He @ Khoo Yee Her, Nora Virginia Scheidegger, Tan Morly @ Molly Tan, Thierry Scheidegger, Khoo Seng Giap, Khoo Seng Chee have undertaken not to sell, transfer or assign their respective shareholdings in HPMT Capital for a period of 6 months from the date of Listing.

## 11. RELATED PARTY TRANSACTIONS

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### 11.1 RELATED PARTY TRANSACTIONS

Pursuant to the Listing Requirements, a “**related party transaction**” is a transaction entered into by a listed corporation or its subsidiaries that involves the interest (*direct or indirect*) of a related party. A “**related party**” of a listed corporation is:

- (i) a director, having the meaning given in section 2(1) of the CMSA and includes any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a director of the listed corporation, its subsidiaries or holding company or a chief executive of the listed corporation, its subsidiaries or holding company; or
- (ii) a major shareholder including any person who is or was within the preceding 6 months of the date on which the terms of the transaction were agreed upon, a major shareholder of the listed corporation or its subsidiaries or holding company, having an interest or interests in one or more voting shares in a corporation and the number or aggregate number of those shares is:
  - (a) 10.0% or more of the total number of voting shares in the corporation; or
  - (b) 5.0% or more of the total number of voting shares in the corporation where such person is the largest shareholder of the corporation; or
- (iii) a person connected with such director or major shareholder.

**11. RELATED PARTY TRANSACTIONS****11.1.1 Related party transactions for the past 3 financial years up to the LPD**

(i) Prior to our IPO, we have undertaken the following one-off related party transactions:

Transacting parties	Nature of relationship	Nature of transaction	Date	Value transacted with related parties
<b>Pursuant to the Acquisitions</b>				
Our Company (as purchaser) and Mec. Tech (as vendor)	Ku He @ Khoo Yee Her, Khoo Seng Giap and Tan Kim Chuan, all being Directors of our Company, are also directors of Mec. Tech  Herroz Mechanical, being our major shareholder, is also a major shareholder of Mec. Tech	<ul style="list-style-type: none"> <li>Acquisition of HPMT Industries</li> <li>Acquisition of Herroz</li> <li>Acquisition of HPMT GmbH</li> </ul>	25 May 2018  25 May 2018  25 May 2018	RM51,563,000  RM4,828,000  EUR455,821.60 (equivalent to RM2,208,000 <sup>(1)</sup> )
Our Company (as purchaser) and Mec. Tech and Yoong Kam Sing (as vendors)	Ku He @ Khoo Yee Her, Khoo Seng Giap and Tan Kim Chuan, all being Directors of our Company, are also directors of Mec. Tech  Herroz Mechanical, being our major shareholder, is also a major shareholder of Mec. Tech	<ul style="list-style-type: none"> <li>Acquisition of MTC Tooling</li> </ul>	25 May 2018	HKD7,402,244 (equivalent to RM3,834,000 <sup>(2)</sup> )
Our Company (as purchaser) and Herroz Mechanical (as vendor)	Yoong Kam Sing is a director of MTC Tooling  Ku He @ Khoo Yee Her, Khoo Seng Giap and Tan Kim Chuan, all being Directors of our Company, are also directors of Herroz Mechanical  Dato' Khoo Ah Chye, being a Director of our Company, is also a director and major shareholder of Herroz Mechanical  Herroz Mechanical is our major shareholder	<ul style="list-style-type: none"> <li>Acquisition of Pentagon</li> </ul>	25 May 2018	RM801,000



**11. RELATED PARTY TRANSACTIONS**

Transacting parties	Nature of relationship	Nature of transaction	Date	Value transacted with related parties
<b>Other related party transactions</b>				
HPMT Industries (as purchaser) and Herroz Mechanical (as vendor)	Ku He @ Khoo Yee Her, Khoo Seng Giap and Tan Kim Chuan, all being directors of HPMT Industries, are also directors of Herroz Mechanical  Herroz Mechanical is an indirect major shareholder of HPMT Industries	<ul style="list-style-type: none"> <li>Acquisition of Block C</li> </ul>	1 June 2018	RM19,000,000
MTC Tooling (as vendor) and Smart Sun City (HK) Ltd (as purchaser)	Ku He @ Khoo Yee Her and Tan Kim Chuan, both being Directors of our Company, are also directors of MTC Tooling and Smart Sun City (HK) Ltd  Yoong Kam Sing, a director of MTC Tooling, is a director and major shareholder of Smart Sun City (HK) Ltd	<ul style="list-style-type: none"> <li>Disposal of HK Properties</li> </ul>	30 April 2018	HKD8,800,000 (equivalent to RM4,395,653 <sup>(3)</sup> )
	Herroz Mechanical is a direct major shareholder of Smart Sun City (HK) Ltd and an indirect major shareholder of MTC Tooling			

**Notes:**

- (1) Based on the middle rate of EUR1.00:RM4.8440 at 5.00 p.m. on 29 December 2017 as published by BNM.
- (2) Based on the middle rate of HKD100.00:RM51.7951 at 5.00 p.m. on 29 December 2017 as published by BNM.
- (3) Based on the middle rate of HKD100.00:RM49.9506 at 5.00 p.m. on 30 April 2018, being the completion date of the transaction, as published by BNM.

**11. RELATED PARTY TRANSACTIONS**

(ii) Save as disclosed under Section 11.1.1(i) above and below, there are no other existing and/or proposed related party transactions which have been entered into or are to be entered into by our Group for the Period under Review up to the LPD:

Transacting parties	Nature of relationship	Nature of transaction	FYE 2015 (RM '000)	FYE 2016 (RM '000)	FYE 2017 (RM '000)	FYE 2018 (RM '000)	From 1 January 2019 up to the LPD (RM '000)
MTTS and HPMT Industries <sup>(1)</sup>	<p>Ku He @ Khoo Yee Her, Khoo Seng Giap and Tan Kim Chuan, all being directors of MTTS, are also directors of HPMT Industries</p> <p>Herroz Mechanical is an indirect major shareholder of both MTTS and HPMT Industries</p>	<ul style="list-style-type: none"> <li>Sale of cutting tools by HPMT Industries (as seller) to MTTS (as buyer)</li> <li>Rental paid by MTTS (as tenant) to HPMT Industries (as landlord) for renting a part of the 1st floor office located at No. 5, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor</li> </ul>	1,864 (2.7% of our revenue)	-	-	-	-
MTTS and Herroz	<p>Ku He @ Khoo Yee Her, Khoo Seng Giap, Tan Kim Chuan and Dato' Khoo Ah Chye, all being directors of MTTS, are also directors of Herroz</p> <p>Herroz Mechanical is an indirect major shareholder of both MTTS and Herroz</p>	<ul style="list-style-type: none"> <li>Purchase of cutting tools by Herroz (as buyer) from MTTS (as seller)</li> </ul>	324 (0.8% of our cost of sales)	-	-	-	-

**11. RELATED PARTY TRANSACTIONS**

Transacting parties	Nature of relationship	Nature of transaction	FYE 2015 (RM '000)	FYE 2016 (RM '000)	FYE 2017 (RM '000)	FYE 2018 (RM '000)	From 1 January 2019 up to the LPD (RM '000)
Herroz Mechanical and HPMT Industries	Ku He @ Khoo Yee Her, Khoo Seng Giap and Tan Kim Chuan, all being directors of HPMT Industries, are also directors of Herroz Mechanical	<ul style="list-style-type: none"> <li>Rental paid by HPMT Industries (as tenant) to Herroz Mechanical (as landlord) for renting part of Block C (prior to the completion of the Acquisition of Block C)<sup>(2)</sup></li> </ul>	393 (1.0% of our cost of sales)	459 (1.1% of our cost of sales)	459 (1.1% of our cost of sales)	459 (1.0% of our cost of sales)	-
	Herroz Mechanical is an indirect major shareholder of HPMT Industries	<ul style="list-style-type: none"> <li>Payment of utilities by HPMT Industries (as tenant) to Herroz Mechanical (as landlord) pursuant to the rental of part of Block C (prior to the completion of the Acquisition of Block C)<sup>(2)</sup></li> </ul>	-	-	11 (<0.1% of our cost of sales)	11 (<0.1% of our cost of sales)	-

**11. RELATED PARTY TRANSACTIONS**

Transacting parties	Nature of relationship	Nature of transaction	FYE 2015 (RM '000)	FYE 2016 (RM '000)	FYE 2017 (RM '000)	FYE 2018 (RM '000)	From 1 January 2019 up to the LPD (RM '000)
MTC Tooling and Smart Sun City (HK) Ltd	Ku He @ Khoo Yee Her and Tan Kim Chuan, being our Directors, are also directors of Smart Sun City (HK) Ltd and of MTC Tooling	<ul style="list-style-type: none"> <li>Rental to be paid by MTC Tooling (as tenant) for the renting of the HK Properties from Smart Sun City (HK) Ltd (as landlord)<sup>(3)</sup></li> </ul>	-	-	-	93	(4)63
	Yoong Kam Sing, a director of MTC Tooling, is a director and major shareholder of Smart Sun City (HK) Ltd						
	Herroz Mechanical is a direct major shareholder of Smart Sun City (HK) Ltd and an indirect major shareholder of MTC Tooling						

**Notes:**

- (1) As at LPD, MTTTS is in the process of winding up.
- (2) The tenancy and payment of utilities arrangement have been terminated upon completion of the Acquisition of Block C.
- (3) The salient terms of the tenancy agreement between Smart Sun City (HK) Ltd (as landlord) and MTC Tooling (as tenant) are as follows:
  - (i) the rental rate is HKD30,000 per month (inclusive of monthly rates and government rent of HKD1,200 and management fee of HKD3,300);
  - (ii) the tenancy period is from 1 May 2018 until 30 April 2020 (both days inclusive), with a rent free period from 1 May 2018 to 30 June 2018;
  - (iii) the tenant undertakes not to assign, underlet or grant any licence in respect of the HK Properties nor part with or share the possession of the HK Properties;

**11. RELATED PARTY TRANSACTIONS**

- (iv) the tenant may terminate the tenancy at any time by giving not less than 3 months prior written notice to the landlord, or pay to the landlord 3 months' rent in substitution for such notice; and
- (v) the landlord may terminate the tenancy if, among others, (a) any part of the monthly rent remains unpaid for 15 days after becoming payable; (b) the tenant fails or neglect to perform any of its obligations under the tenancy agreement; or (c) the tenant has a receiving order made against it if it fails to repay its debts or enters into any composition or arrangement with its creditors.

Our Audit and Risk Management Committee is of the opinion that the tenancy was on an arm's length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the interest of our minority shareholders. Upon or prior to the expiry of the tenancy on 30 April 2020, our Audit and Risk Management Committee will review the terms of the tenancy to determine whether it is appropriate and in the best interest of our Group to further renew or extend the tenancy and the terms of such renewal or extension based on the then prevailing market rental. Our Audit and Risk Management Committee will also have the right during the term of the tenancy to review and consider whether it is in the best interest of our Group at any time to exercise its right of early termination of the tenancy.

- (4) Based on the middle rate of HKD100.00:RM52.6785 at 5.00 p.m. on LPD, as published by BNM. The rental rate is HKD30,000 per month.

## **11. RELATED PARTY TRANSACTIONS**

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Our Directors (save for the interested Directors) are of the opinion that all the above transactions were carried out in the best interest of our Company on an arm's length basis, on normal commercial terms which are not more favourable to the related parties than those generally available to the public and are not detrimental to the interest of our minority shareholders.

In addition, to safeguard our interest and our minority shareholders, and to mitigate any potential conflict of interests situation, our Audit and Risk Management Committee will, amongst others, review the terms of all related party transactions (if any), and report to our Board for further action. When necessary, our Board will make appropriate disclosures in our annual report with regard to any related party transaction entered into by us. In the event that there are any proposed related party transactions that involve the interest, direct or indirect, of our Directors, the interested Director(s) shall disclose his interest to our Board, of the nature and extent of his interest including all matters in relation to the proposed related party transaction that he is aware or should reasonably be aware of, which is not in our best interest. The interested Director(s) shall also abstain from any Board deliberation and voting on the relevant resolution(s) in respect of such proposed related party transaction.

In the event that there are any proposed related party transactions that require the prior approval of our shareholders, our Directors, Substantial Shareholders and/or persons connected with a Director or Substantial Shareholder which have any interest, direct or indirect, in the proposed related party transactions will also abstain from voting in respect of his direct and/or indirect shareholdings. Such interested Director and/or Substantial Shareholder will also undertake to ensure that persons connected with him, if any, will abstain from voting on the resolution approving the proposed related party transaction at the general meeting.

### **11.2 OTHER TRANSACTIONS**

#### **11.2.1 Transactions entered into that are unusual in their nature or conditions**

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for the Period under Review and up to the LPD.

#### **11.2.2 Loans made to or for the benefit of related parties**

Our Group has not granted any loan to or for benefit of a related party for the Period under Review and up to the LPD.

#### **11.2.3 Financial assistance provided for the benefit of related parties**

Save as disclosed below, there was no financial assistance made by us to or for the benefit of any related party for the Period under Review and up to the LPD:

- (i) A corporate guarantee amounting to RM5,880,000 was given by HPMT Industries to RHB Bank Berhad for the benefit of Herroz Mechanical, being a Substantial Shareholder of our Company, in connection with banking facilities granted by RHB Bank Berhad to Herroz Mechanical in August 2013. Upon the renewal of the banking facilities in May 2018, RHB Bank Berhad has waived the requirement for the said corporate guarantee to form part of the security for the banking facilities.

**11. RELATED PARTY TRANSACTIONS**

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- (ii) A corporate guarantee amounting to RM6,250,000 was given by HPMT Industries to RHB Bank Berhad for the benefit of Sunrise Rigid Machinery Sdn Bhd, a subsidiary of Herroz Mechanical, being a Substantial Shareholder of our Company, in connection with banking facilities granted by RHB Bank Berhad to Sunrise Rigid Machinery Sdn Bhd in March 2014. Upon the renewal of the banking facilities in May 2018, RHB Bank Berhad has waived the requirement for the said corporate guarantee to form part of the security for the banking facilities.

## 12. CONFLICTS OF INTEREST

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### 12.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESS OF OUR CLIENTS AND OUR SUPPLIERS

As at the LPD, none of our Directors or Substantial Shareholders has any interest, direct or indirect, in other businesses or corporations which are:

- (i) carrying on a similar or related trade as our Group; or
- (ii) customers and/or suppliers of our Group.

Our Audit and Risk Management Committee will supervise any conflict of interest or potential conflict of interest situations and our Board will disclose such conflict of interest situations, if any, for resolution as and when they arise. As a measure to govern and supervise potential related party transactions, an internal framework and policy will be adopted by our Board to ensure that potential related party transactions will be carried out on an arm's length basis. In line with its terms of reference as stated in Section 5.2.5.1(v) of this Prospectus, the Audit and Risk Management Committee will review these potential related party transactions and conflict of interest situations that may arise therefrom.

### 12.2 DECLARATION BY ADVISERS ON CONFLICTS OF INTEREST

#### 12.2.1 HLIB

HLIB and its subsidiaries and associated companies, as well as its penultimate holding company and the subsidiaries and associated companies of its penultimate holding company ("**Hong Leong Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, assets and funds management and credit transaction services businesses.

The Hong Leong Group has engaged and may in the future, engage in transactions with and perform services for our Company and/or our affiliates, in addition to the roles set out in this Prospectus. In addition, in the ordinary course of business, any member of the Hong Leong Group may at any time offer or provide its services to or engage in any transaction (on its own account or otherwise) with any member of our Group, our shareholders, our and/or their affiliates and/or any other entity or person, hold long or short positions in securities issued by our Company and/or affiliates, and may trade or otherwise effect transactions for its own account or the account of its customers in debt or equity services or senior loans of any member of our Group and/or our affiliates. This is a result of the businesses of the Hong Leong Group generally acting independently of each other, and accordingly, there may be situations where parts of the Hong Leong Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interest of our Group. Nonetheless, the Hong Leong Group is required to comply with applicable laws and regulations issued by the relevant authorities governing its advisory business, which required, among others, segregation between dealing and advisory activities and Chinese wall between different business divisions.

As at the LPD, as part of the ordinary course of business, the Hong Leong Group has extended term loans/term financing and bridging loan amounting to RM23.7 million to our Group.

Notwithstanding the above, HLIB is of the view that the aforesaid lending relationship would not give rise to a conflict of interest situation in its capacity as our Principal Adviser, Underwriter and Placement Agent for our IPO as:

- (i) the extension of credit facilities and investment in debt securities arose in the ordinary course of business of the Hong Leong Group;



## 12. CONFLICTS OF INTEREST

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- (ii) the conduct of the Hong Leong Group in its banking business is strictly regulated by the Financial Services Act 2013, Islamic Financial Services Act 2013 and the Hong Leong Group's own internal controls and checks; and
- (iii) the total aggregate exposure by the Hong Leong Group to our Group of RM23.7 million, when compared to the latest audited consolidated NA of Hong Leong Financial Group Berhad as at 30 June 2018 of RM17.8 billion (representing about 0.1% of the latest audited consolidated NA of Hong Leong Financial Group Berhad), is not material.

Mr. Peter Ho Kok Wai, our Senior Independent Non-Executive Director, is also an Independent Non-Executive Director of Hong Leong Capital Berhad, the immediate holding company of HLIB. Notwithstanding the above, HLIB is of the view that this would not give rise to a conflict of interest situation as:

- (i) Mr. Ho serves as an independent director on both our Board and the board of directors of Hong Leong Capital Berhad, and is not involved in the day-to-day operations of both companies;
- (ii) the conduct of the Hong Leong Group in its banking business is strictly regulated by the Financial Services Act 2013, Islamic Financial Services Act 2013 and the Hong Leong Group's own internal controls and checks; and
- (iii) Mr. Ho does not have any equity interest in our Company and Hong Leong Capital Berhad as at the LPD, and has also indicated that he will not be subscribing for his allocated IPO Shares.

HLIB has also confirmed that as at the LPD, there are no circumstances that exists or is likely to exist to give rise to a possible conflict of interest situation in its capacity as our Principal Adviser, Underwriter and Placement Agent for our IPO.

### 12.2.2 Baker Tilly Monteiro Heng PLT

Baker Tilly Monteiro Heng PLT confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the auditors and reporting accountants for our IPO.

### 12.2.3 Mah-Kamariyah & Philip Koh

Mah-Kamariyah & Philip Koh confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the legal adviser to our Company for our IPO.

### 12.2.4 Fangda Partners

Fangda Partners confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the legal adviser to our Company as to the laws of China in relation to our IPO.

### 12.2.5 Eversheds Sutherland (Germany) LLP

Eversheds Sutherland (Germany) LLP confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the legal adviser to our Company as to the laws of Germany in relation to our IPO.

## **12. CONFLICTS OF INTEREST**

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### **12.2.6 Kwok Yih & Chan**

Kwok Yih & Chan confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the legal adviser to our Company as to the laws of Hong Kong in relation to our IPO.

### **12.2.7 Protégé**

Protégé confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the Independent Market Researcher for our IPO.

### **12.2.8 Rahim & Co**

Rahim & Co confirms that there is no existing or potential conflict of interest in relation to it acting in its capacity as the Independent Property Valuer for our IPO.

### 13. FINANCIAL INFORMATION

#### 13.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated on 16 November 2017. The formation of our Group was undertaken through the series of acquisition exercises as set out below:

Details of the Acquisitions	Completion date
(i) 100.0% of HPMT Industries	29 March 2019
(ii) 100.0% of Herroz	29 March 2019
(iii) 100.0% of HPMT GmbH	29 March 2019
(iv) 100.0% of MTC Tooling	20 March 2019
(v) 75.0% of Pentagon	29 March 2019

The combined financial statements for the Period under Review were prepared based on separate audited financial statements of the respective Subsidiaries for the Period under Review. All intra-group transactions and balances have been eliminated on combination.

The historical combined financial information presented below should be read in conjunction with:

- (i) the "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set out in Section 13.3 of this Prospectus; and
- (ii) the Accountants' Report, together with its accompanying notes as set out in Section 15 of this Prospectus.

##### 13.1.1 Historical financial performance

The following table sets out the selected financial information of the audited combined statements of comprehensive income of our Group for the Period under Review, which is extracted from the Accountants' Report as set out Section 15 of this Prospectus:

	Audited			
	FYE 2015 (RM '000)	FYE 2016 (RM '000)	FYE 2017 (RM '000)	FYE 2018 (RM '000)
<b>Continuing operation</b>				
Revenue	68,876	75,162	85,152	85,296
Cost of sales	(38,816)	(42,431)	(43,297)	(47,600)
<b>GP</b>	<b>30,060</b>	<b>32,731</b>	<b>41,855</b>	<b>37,696</b>
Other income	1,127	2,406	1,145	4,880
Administrative expenses	(11,105)	(12,241)	(16,995)	(19,612)
Distribution expenses	(4,587)	(5,159)	(6,630)	(6,247)
<b>Operating profit</b>	<b>15,495</b>	<b>17,737</b>	<b>19,375</b>	<b>16,717</b>
Finance costs	(1,126)	(1,120)	(910)	(1,038)
<b>PBT</b>	<b>14,369</b>	<b>16,617</b>	<b>18,465</b>	<b>15,679</b>
Taxation	(2,981)	(3,484)	(3,575)	(1,927)
<b>Profit for the financial year from continuing operations</b>	<b>11,388</b>	<b>13,133</b>	<b>14,890</b>	<b>13,752</b>
Loss from the financial year from discontinued operation, net of tax <sup>(1)</sup>	(27)	(2)	*	-
<b>Profit for the financial year</b>	<b>11,361</b>	<b>13,131</b>	<b>14,890</b>	<b>13,752</b>

**13. FINANCIAL INFORMATION**

	<b>Audited</b>			
	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
<b>Profit/(Loss) attributable to:</b>				
Owners of our Company	10,621	12,564	14,837	12,214
• From continuing operations	10,648	12,566	14,837	12,214
• From discontinued operation <sup>(1)</sup>	(27)	(2)	*	-
Non-controlling interests	740	567	53	1,538
<b>Profit for the financial year</b>	<b>11,361</b>	<b>13,131</b>	<b>14,890</b>	<b>13,752</b>
GP margin (%) <sup>(2)</sup>	43.6	43.5	49.2	44.2
EBITDA (RM '000) <sup>(3)</sup>	20,160	23,540	25,725	24,145
EBITDA margin (%) <sup>(4)</sup>	29.3	31.3	30.2	28.3
PBT margin (%) <sup>(5)</sup>	20.9	22.1	21.7	18.4
PAT margin (%) <sup>(6)</sup>	16.5	17.5	17.5	16.1
Basic/Diluted EPS (sen) <sup>(7)</sup>	4.20	4.97	5.87	4.83
Effective tax rate (%)	20.8	21.0	19.4	12.3

**Notes:**

\* Negligible.

(1) The losses from discontinued operation were in relation to a dormant wholly-owned subsidiary of MTC Tooling which was disposed on 5 May 2018. The losses from discontinued operation for the respective financial years consisted of administrative expenses incurred.

(2) GP margin is computed based on the GP over revenue.

(3) EBITDA is computed based on the following:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
PAT	11,361	13,131	14,890	13,752
Add: Taxation	2,981	3,484	3,575	1,927
Finance costs	1,126	1,120	910	1,038
Depreciation	4,950	5,966	6,658	7,864
Minus: Interest income	(258)	(161)	(308)	(436)
<b>EBITDA</b>	<b>20,160</b>	<b>23,540</b>	<b>25,725</b>	<b>24,145</b>

(4) EBITDA margin is computed based on the EBITDA over revenue.

(5) PBT margin is computed based on the PBT over revenue.

(6) PAT margin is computed based on the PAT over revenue.

(7) Calculated based on our PAT attributable to the owners of our Company divided by our Company's number of Shares immediately after the Acquisitions of 252,936,000 Shares. Diluted EPS are the same as basic EPS as there were no potential dilutive ordinary shares existing during the respective years.

There are no exceptional or extraordinary items throughout the Period under Review.

**13. FINANCIAL INFORMATION****13.1.2 Historical financial position**

The following table sets out the selected financial information of our audited combined statements of financial position as at 31 December 2015, 2016, 2017 and 2018 which is extracted from the Accountants' Report as set out Section 15 of this Prospectus:

	<b>Audited as at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	43,371	43,852	50,234	77,008
Deferred tax assets	1	1	131	10
Other investment	8,229	5,364	8,995	-
<b>Total non-current assets</b>	<b>51,601</b>	<b>49,217</b>	<b>59,360</b>	<b>77,018</b>
<b>Current assets</b>				
Inventories	20,110	19,731	20,746	24,464
Current tax assets	145	664	302	2,259
Trade and other receivables	15,735	21,091	18,960	16,977
Cash and short-term deposits	8,286	10,554	12,908	13,235
<b>Total current assets</b>	<b>44,276</b>	<b>52,040</b>	<b>52,916</b>	<b>56,935</b>
Non-current assets held for sale	-	-	1,171	-
Assets of a disposal group classified as held for sale	-	-	43	-
<b>TOTAL ASSETS</b>	<b>95,877</b>	<b>101,257</b>	<b>113,490</b>	<b>133,953</b>
<b>EQUITY AND LIABILITIES</b>				
Invested equity	4,706	4,706	5,206	6,206
Other reserves	341	(4)	(108)	527
Retained earnings	45,818	50,119	59,422	64,026
<b>Equity attributable to owners of our Company</b>	<b>50,865</b>	<b>54,821</b>	<b>64,520</b>	<b>70,759</b>
Non-controlling interests	2,506	2,730	2,652	3,247
<b>TOTAL EQUITY</b>	<b>53,371</b>	<b>57,551</b>	<b>67,172</b>	<b>74,006</b>

**13. FINANCIAL INFORMATION**

	<b>Audited as at 31 December</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
<b>Non-current liabilities</b>				
Loans and borrowings	15,211	12,564	12,225	25,894
Deferred income	2,833	4,132	5,067	4,297
Deferred tax liabilities	2,889	3,616	3,916	4,688
Trade and other payables	554	578	517	-
<b>Total non-current liabilities</b>	<b>21,487</b>	<b>20,890</b>	<b>21,725</b>	<b>34,879</b>
<b>Current liabilities</b>				
Loans and borrowings	12,611	9,429	10,459	13,614
Deferred income	372	581	770	770
Current tax liabilities	144	91	210	232
Trade and other payables	7,892	12,715	13,148	10,452
<b>Total current liabilities</b>	<b>21,019</b>	<b>22,816</b>	<b>24,587</b>	<b>25,068</b>
Liabilities of disposal group classified as held for sale	-	-	6	-
<b>TOTAL LIABILITIES</b>	<b>42,506</b>	<b>43,706</b>	<b>46,318</b>	<b>59,947</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>95,877</b>	<b>101,257</b>	<b>113,490</b>	<b>133,953</b>

**13. FINANCIAL INFORMATION****13.2 CAPITALISATION AND INDEBTEDNESS**

The table below sets out our capitalisation and indebtedness information based on our unaudited management accounts as at 31 March 2019. The pro forma information has been adjusted to reflect:

- (i) our IPO; and
- (ii) the use of IPO proceeds.

The pro forma financial information below does not represent our actual cash and cash equivalents, capitalisation and indebtedness as at 31 March 2019 and is provided for illustrative purposes only.

	<b>As at 31 March 2019</b>	<b>After our IPO and the use of IPO proceeds</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>
<b>Cash and bank balances</b>	10,620	15,360
<b>Indebtedness:</b>		
<i>Secured and guaranteed</i>		
• Term loans	31,236	31,236
• Finance lease liabilities	527	527
• Bankers' acceptance	2,149	2,149
• Revolving credit	867	867
<b>Total indebtedness</b>	<b>34,779</b>	<b>34,779</b>
<b>Capitalisation</b>		
Total shareholder's equity	76,597	116,337
<b>Total capitalisation</b>	<b>76,597</b>	<b>116,337</b>
<b>Total capitalisation and indebtedness</b>	<b>111,376</b>	<b>151,116</b>
Gearing ratio (times) <sup>(1)</sup>	0.45	0.30

**Note:**

- (1) Computed based on total indebtedness over our shareholder's equity.

### 13. FINANCIAL INFORMATION

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

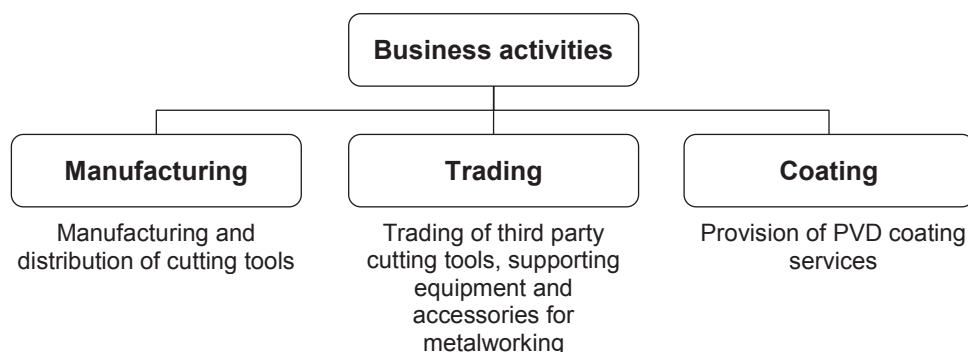
The following management's discussion and analysis of our financial condition and results of operations for the Period under Review should be read in conjunction with the Accountants' Report as set out in Section 15 of this Prospectus.

The pro forma financial information was prepared based on the assumption that the current structure of our Group had been in existence throughout the Period under Review.

The discussion and analysis contains data derived from our audited combined financial statements as well as forward-looking statements that involve risks and uncertainties. The actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 9 of this Prospectus.

##### 13.3.1 Overview of operations

We are principally engaged in the manufacturing and distribution of cutting tools, trading of third party cutting tools, supporting equipment and accessories for metalworking as well as provision of PVD coating services. Our business operations are summarised as below:



Headquartered in Malaysia, our products are manufactured in our production facility located in Shah Alam and are sold to more than 30 countries during the Period under Review. According to the Independent Market Researcher, our market share is as follows:

- (i) 23.6% of the total export value of cutting tools from Malaysia in 2018, based on the revenue derived from our overseas operations for FYE 2018; and
- (ii) 2.8% of the cutting tools industry in Malaysia, based on the revenue derived from our local operations for FYE 2018.

We also trade in third party products of cutting tools and related goods such as indexable tools, holding systems, high speed steel drills and taps.

Please refer to Section 7 of this Prospectus for more details on our business overview.



### 13. FINANCIAL INFORMATION

#### 13.3.2 Significant factors affecting our financial position and results of operations

Our financial position and results of operations for the Period under Review have been affected by the following significant factors:

##### 13.3.2.1 Availability and fluctuation of raw materials

Our profitability is dependent upon, among other things, our ability to anticipate and react to any interruptions in the supply of raw materials and any fluctuations in the costs of our raw materials. For FYE 2015 to FYE 2018, the cost of raw materials comprised mainly tungsten carbide rods, which represented approximately 43.4%, 39.7%, 36.0% and 33.5% of our total cost of sales for the Period under Review. We recognise the cost of raw materials upon sales of our products to our customers. As such, any fluctuations in the price of tungsten carbide rods as a result of fluctuations in the price of tungsten, a global commodity, or fluctuations in the selling price quoted by our suppliers will have a delayed effect on our cost of sales due to the difference in timing between purchases of raw materials and sales.

We generally do not enter into minimum supply contracts with our suppliers. Hence, our suppliers would not be committed to provide products to us within an agreed period of time or at certain pre-agreed prices. Any significant changes to the supply and price of raw materials may adversely affect our operations and profitability.

Nonetheless, we have developed a close and stable relationship with our key suppliers. Our suppliers regularly keep us abreast of the supply condition and price trend of our main raw materials to ensure that we are aware and are prepared for the increase in prices of raw materials. We have generally been able to continually source our main raw materials at competitive prices. Notwithstanding the above, we have the flexibility to engage other suppliers should the need arise.

##### 13.3.2.2 Foreign exchange rate fluctuation

We are exposed to foreign currency exchange risks as more than 80.0% of our revenue for the Period under Review is derived from export sales, which were mainly transacted in EUR, USD and CNY. On the other hand, the import of our raw materials, such as tungsten carbide rods, is mainly denominated in USD. Certain of our borrowings are also denominated in foreign currency, mainly in EUR. Any significant movement in foreign exchange rates will affect our financial performance.

For the Period under Review, our foreign-denominated revenue, foreign-denominated purchases and foreign-denominated finance costs mainly comprised the following:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	(RM '000)	(RM '000)	(RM '000)	(RM '000)
Foreign-denominated revenue (in RM equivalents)				
• EUR	31,446	34,101	41,480	42,897
• USD	16,899	19,121	19,634	17,116
• CNY	10,250	9,190	9,551	7,435
• HKD	980	1,067	397	263
• SGD	435	497	474	497
• JPY	-	2	3	11

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	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
	(RM '000)	(RM '000)	(RM '000)	(RM '000)
Foreign-denominated purchases (in RM equivalents)				
• USD	18,426	17,430	23,538	22,556
• EUR	1,614	1,343	1,693	1,847
• HKD	187	175	-	-
• SGD	120	46	2	19
Foreign-denominated finance costs (in RM equivalents)				
• EUR	197	398	354	547

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 or translation into RM. To minimise our exposure to currency risk, we observe the movements in exchange rates and act accordingly. Our foreign exchange risk is mitigated to a certain extent as the nature of our operations warrants the use of our revenue to pay for the purchases and finance costs denominated in the same foreign currency. This would therefore provide, to a certain extent, a natural hedge against foreign exchange fluctuations. In addition, we have entered into forward currency contracts to partially hedge foreign currency risk, details of which are set out in Section 13.4.4 of this Prospectus.

We have not incurred any material losses arising from foreign currency translations for the Period under Review. The historical impact of foreign exchange fluctuations on our financial performance were as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
Realised foreign exchange gain / (loss), net (RM '000)	314	1,416	(468)	(393)
As a percentage of PBT (%)	2.2%	8.5%	-2.5%	-2.5%

The fluctuations in our net realised foreign exchange gains and losses are described in Sections 13.3.4.4 and 13.3.4.5 of this Prospectus.

In addition, we recognise exchange differences on translation of our foreign Subsidiaries in other comprehensive income/losses when their assets, liabilities, revenue and earnings recorded by our foreign Subsidiaries are translated from EUR (for HPMT GmbH), CNY (for HPMT Shenzhen) and HKD (for MTC Tooling) into RM for financial reporting and repatriation purposes. For the Period under Review, the amounts recognised under other comprehensive income and losses were as follows:

	<u>FYE 2015</u>	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>
Exchange differences on translation of foreign operations (RM '000)	485	(701)	(269)	1,172

The movements in the exchange differences for the Period under Review represent the exchange differences between the historical rates, opening rates and closing rates (for translation of statement of financial position), and between average rates and closing rates (for translation of statement of profit or loss) used when translating our foreign Subsidiaries as at each year end for consolidation purposes.

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### 13.3.3 Impact of inflation, interest rate, and government / economic / fiscal / monetary policies

#### 13.3.3.1 Impact of inflation

The business, financial condition or results of our operations for the Period under Review were not materially affected by the impact of inflation. Even though we are confident of passing on the effect of higher product costs due to inflation to our customers, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

#### 13.3.3.2 Interest rate risk

Our exposure to interest rate risk arises primarily from our long-term borrowings with floating interest rates. During FYE 2017, we entered into an interest rate swap transaction to manage floating interest rates arising from a term loan until the term loan is fully repaid in FYE 2020.

We also managed our interest rate exposure by maintaining a mix of fixed rate and floating rate borrowings. As at 31 December 2018, our exposure to interest rate risk arose predominantly from floating rate borrowing which stood at RM34.3 million or 86.7% of our total borrowings.

There was no material impact from the fluctuations in interest rates on our profits for the Period under Review. However, a major increase in interest rates would raise the cost of borrowings and our finance costs, which may have any adverse effect on our financial performance. The sensitivity analysis for interest rate risk is set out in the Accountants' Report under Section 15 of this Prospectus.

#### 13.3.3.3 Government/Economic/Fiscal/Monetary policies

We are subject to the risks of government, economic, fiscal or monetary policies, where any unfavourable change may materially affect our business operations, financial performance and prospects of the cutting tool industry in which we operate. For the Period under Review, our results were not adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies.

#### 13.3.4 Results of operations

The components of results of operations of our Group are as follows:

##### 13.3.4.1 Revenue

Our revenue stream can be segregated into the following:

##### **Manufacturing**

Our revenue is derived from the manufacturing and distribution of cutting tools. We sell our cutting tools through our Subsidiaries, which serviced Malaysia, Germany, China and Hong Kong markets, whereas the remaining markets are serviced by a sales network of distributors.

We recognise revenue from the sale of cutting tools upon delivery and acceptance of the cutting tools by our customers.

**13. FINANCIAL INFORMATION****Trading**

We are also involved in the trading of third party products such as indexable inserts, tool holding systems and CNC machines. Currently, we sell various international brands including D'andrea (Italy), Ilix (Germany) and Dijet (Japan).

We recognise revenue from the sale of trading goods upon delivery and acceptance of the trading goods by our customers.

**Coating**

Our subsidiary, Pentagon, is involved in the coating service business and was established to leverage our know-how in PVD coating and provide coating services to our manufacturing segment as well as to other local cutting tool manufacturers and to serve a wide range of industries, such as automotive, moulds and dies, and aerospace. At our customer's request, Pentagon also delivers the coated items to customers.

We recognise revenue upon performance of services.

**(i) Segmental analysis****Analysis by business segment**

The table below sets out our revenue by business segment for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
<b>Manufacturing</b>								
Standard tools	47,928	69.6	51,496	68.5	57,136	67.1	56,128	65.8
Special tools	17,432	25.3	20,192	26.9	22,980	27.0	21,502	25.2
Sub-total	65,360	94.9	71,688	95.4	80,116	94.1	77,630	91.0
<b>Trading</b>	3,516	5.1	3,474	4.6	4,251	5.0	5,521	6.5
<b>Coating</b>	-	-	-	-	785	0.9	2,145	2.5
<b>Total</b>	<b>68,876</b>	<b>100.0</b>	<b>75,162</b>	<b>100.0</b>	<b>85,152</b>	<b>100.0</b>	<b>85,296</b>	<b>100.0</b>

Our revenue was mainly derived from the manufacturing segment for the Period under Review. The manufacturing segment contributed approximately 94.9%, 95.4%, 94.1% and 91.0%, respectively of the total revenue for FYE 2015, FYE 2016, FYE 2017 and FYE 2018.

**13. FINANCIAL INFORMATION****Analysis by geographical location**

The table below sets out our revenue by geographical location for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
<b>Local</b>								
Malaysia	8,864	12.9	11,176	14.9	13,532	15.9	16,969	19.9
<b>Overseas</b>								
Europe	32,518	47.2	34,394	45.8	41,663	48.9	43,248	50.7
• Germany	14,171	20.6	14,986	19.9	12,567	14.8	13,786	16.1
• Italy	7,201	10.5	7,567	10.1	10,794	12.7	11,742	13.8
• Czech Republic	3,191	4.6	2,216	3.0	6,933	8.1	6,998	8.2
• Others <sup>(1)</sup>	7,955	11.5	9,625	12.8	11,369	13.3	10,722	12.6
Asia (excluding Malaysia)	27,233	39.5	29,348	39.0	29,618	34.8	24,693	28.9
• China	11,231	16.3	10,295	13.7	9,948	11.7	7,700	9.0
• Japan	3,262	4.7	5,069	6.7	5,667	6.7	5,695	6.7
• Turkey	2,863	4.2	4,154	5.5	2,804	3.3	1,383	1.6
• Others <sup>(2)</sup>	9,877	14.3	9,830	13.1	11,199	13.1	9,915	11.6
Others	261	0.4	244	0.3	339	0.4	386	0.5
<b>Total</b>	<b>68,876</b>	<b>100.0</b>	<b>75,162</b>	<b>100.0</b>	<b>85,152</b>	<b>100.0</b>	<b>85,296</b>	<b>100.0</b>

**Notes:**

- (1) Include Denmark, Portugal, Spain, France, Slovenia, The Netherlands, Switzerland, Poland, United Kingdom, Belgium, Sweden and Austria, each of which contributed less than 5.0% to our revenue for the Period under Review.
- (2) Include Thailand, Indonesia, Philippines, Taiwan, India, Singapore, Vietnam, South Korea, Egypt, United Arab Emirates and Cyprus, each of which contributed less than 5.0% to our revenue for the Period under Review.

Our revenue is derived from a combination of domestic and overseas markets, which includes Europe, Asia and other countries (such as Australia, the United States of America and New Zealand). Our revenue by top 4 countries for the Period under Review was Germany, Malaysia, China and Italy. During the Period under Review, our revenue was mainly derived from overseas sales and we exported our products to more than 30 countries. During the Period under Review, our local sales represented approximately 12.9% to 19.9% of our total revenue.

Revenue for our trading segment was mainly derived from Malaysia, which contributed between 96.6% and 98.5% to the revenue for our trading segment for the Period under Review. Revenue for our coating segment was mainly derived from Malaysia.

**13. FINANCIAL INFORMATION****(ii) Financial commentaries****FYE 2018**

We recorded an increase in revenue of RM0.15 million or 0.2% to RM85.30 million for FYE 2018 (FYE 2017: RM85.15 million). During the financial year, our revenue was mainly derived from our manufacturing segment (RM77.63 million or 91.0%), followed by trading segment (RM5.52 million or 6.5%) and coating segment (RM2.15 million or 2.5%). Approximately 80.1% of our revenue was derived from overseas customers, with only approximately 19.9% derived from our local customers.

Revenue contributed from our manufacturing segment decreased by RM2.49 million or 3.1% to RM77.63 million for FYE 2018 (FYE 2017: RM80.12 million), while our sales quantity decreased by 1.3% to about 1,125,900 pieces (FYE 2017: 1,141,200 pieces). The decrease in revenue was mainly due to the following:

- (a) decrease in revenue from the Asian market (excluding Malaysia) by RM4.92 million or 16.7% to RM24.58 million (FYE 2017: RM29.50 million), 76.8% of which was derived from distributors (FYE 2017: 72.5%). Our Asian market (excluding Malaysia) recorded a decrease in sales quantity by 10.6% to about 390,300 pieces (FYE 2017: 436,500 pieces). The decrease in revenue was mainly due to decreased sales from our customers from the following countries:
  - (1) China, whereby we sold about 106,100 pieces (FYE 2017: 102,500 pieces), which contributed RM7.70 million (FYE 2017: RM9.95 million), 29.8% of which was derived from distributors. Despite higher sales quantity, revenue from China decreased because of lower average selling prices due to higher competition for FYE 2018;
  - (2) Turkey, whereby we sold about 36,400 pieces (FYE 2017: 67,500 pieces), which contributed RM1.38 million (FYE 2017: RM2.80 million), all of which was derived from distributors; and
  - (3) Taiwan, whereby we sold about 10,000 pieces (FYE 2017: 27,800 pieces), which contributed RM0.55 million (FYE 2017: RM1.25 million), all of which was derived from distributors; and
- (b) depreciation of EUR and USD against RM:
  - (1) for our sales in EUR, the average EUR/RM during FYE 2018 (EUR1.00:RM4.7672\*) was approximately 1.7% lower than the average EUR/RM during FYE 2017 (EUR1.00: RM4.8508\*); and
  - (2) for our sales in USD, the average USD/RM during FYE 2018 (USD1.00:RM4.0232\*) was approximately 6.3% lower than the average USD/RM during FYE 2017 (USD1.00: RM4.2948\*).

**Note:**

- \* Calculated based on total EUR/USD sales recorded in our financial statements in RM divided by total sales denominated in EUR/USD.

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This was partially offset by the following:

- (a) increase in revenue from the European market by RM1.59 million or 3.8% to RM43.25 million (FYE 2017: RM41.66 million), 99.5% of which was derived from distributors (FYE 2017: 100.0%), while sales quantity increased by 3.3% to about 581,900 pieces (FYE 2017: 563,300 pieces). The increase in revenue was mainly due to increased sales from our customers from the following countries:
- (1) Germany, whereby we sold about 181,400 pieces (FYE 2017: 166,700 pieces), which contributed RM13.79 million (FYE 2017: RM12.57 million), 98.4% of which was derived from distributors;
  - (2) Italy, whereby we sold about 171,300 pieces (FYE 2017: 161,300 pieces), which contributed RM11.74 million (FYE 2017: RM10.79 million), all of which was derived from distributors; and
  - (3) Czech Republic, whereby we sold about 76,100 pieces (FYE 2017: 74,700 pieces), which contributed RM7.00 million (FYE 2016: RM6.93 million), all of which was derived from distributors; and
- (b) increase in revenue from the Malaysian market by RM0.80 million or 9.3% to RM9.41 million (FYE 2017: RM8.61 million), 94.0% of which was derived from distributors (FYE 2017: 95.0%). Our Malaysian market recorded an increase in sales quantity by 8.7% to about 149,300 pieces (FYE 2017: 137,300 pieces). The increase in revenue for FYE 2018 was mainly due increased sales from the same 3 existing distributors as for FYE 2017. We sold about 103,700 pieces (FYE 2017: 91,300 pieces) to these distributors, which contributed RM5.32 million in revenue for FYE 2018 (FYE 2017: RM4.81 million).

Revenue contributed from our trading segment increased by RM1.27 million or 29.9% to RM5.52 million for FYE 2018 (FYE 2017: RM4.25 million). The increase in revenue was mainly attributed to the sale of 4 CNC machines which contributed to RM1.80 million in revenue (FYE 2017: RM0.68 million).

Revenue contributed from our coating segment increased by RM1.36 million to RM2.15 million for FYE 2018 (FYE 2017: RM0.79 million). The increase in revenue was mainly attributed to Pentagon's full year of operation in FYE 2018, as compared to the minimal contribution in FYE 2017 as Pentagon was only incorporated in March 2017.

**FYE 2017**

We recorded an increase in revenue of RM9.99 million or 13.3% to RM85.15 million for FYE 2017 (FYE 2016: RM75.16 million). During the financial year, our revenue was mainly derived from our manufacturing segment (RM80.12 million or 94.1%), followed by trading segment (RM4.25 million or 5.0%) and coating segment (RM0.79 million or 0.9%). Approximately 84.1% of our revenue was derived from overseas customers, with only approximately 15.9% derived from our local customers.



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Revenue contributed from our manufacturing segment increased by RM8.43 million or 11.8% to RM80.12 million for FYE 2017 (FYE 2016: RM71.69 million), while our sales quantity increased by 7.7% to about 1,141,200 pieces (FYE 2016: 1,059,900 pieces). The increase in revenue was mainly due to the following:

- (a) increase in revenue from the Malaysian market by RM0.79 million or 10.1% to RM8.61 million (FYE 2016: RM7.82 million), 95.0% of which was derived from distributors (FYE 2016: 92.7%). Our Malaysian market recorded an increase in sales quantity by 8.4% to about 137,300 pieces (FYE 2016: 126,700 pieces). The increase in revenue for FYE 2017 was mainly due to increased sales from the same 3 existing distributors as for FYE 2016. We sold about 91,300 pieces (FYE 2016: 74,200 pieces) to these distributors, which contributed RM4.81 million in revenue for FYE 2017 (FYE 2016: RM3.96 million);
- (b) increase in revenue from the European market by RM7.27 million or 21.1% to RM41.66 million (FYE 2016: RM34.39 million), all of which was derived from distributors, while sales quantity increased by 19.2% to about 563,300 pieces (FYE 2016: 472,400 pieces). The increase in revenue was mainly due to increased sales from our customers from the following countries:
  - (1) Italy, whereby we sold about 161,300 pieces (FYE 2016: 120,400 pieces), which contributed RM10.79 million (FYE 2016: RM7.57 million); and
  - (2) Czech Republic, whereby we sold about 74,700 pieces (FYE 2016: 18,900 pieces), which contributed RM6.93 million (FYE 2016: RM2.22 million);
- (c) increase in revenue from the Asian market (excluding Malaysia) by RM0.27 million or 0.9% to RM29.50 million (FYE 2016: RM29.23 million), 72.5% of which was derived from distributors (FYE 2016: 69.2%), while sales quantity decreased by 4.6% to about 436,500 pieces (FYE 2016: 457,700 pieces). The increase in revenue was mainly due to increased sales from our customers from the following countries:
  - (1) Japan, whereby we sold about 75,200 pieces (FYE 2016: 76,700 pieces), which contributed RM5.67 million (FYE 2016: RM5.07 million), all of which was derived from distributors; and
  - (2) Philippines, whereby we sold about 42,400 pieces (FYE 2016: 31,300 pieces), which contributed RM2.52 million (FYE 2016: RM1.67 million), all of which was derived from distributors; and
- (d) appreciation of EUR and USD against RM:
  - (1) for our sales in EUR, the average EUR/RM during FYE 2017 (EUR1.00:RM4.8508\*) was approximately 6.2% higher than the average EUR/RM during FYE 2016 (EUR1.00:RM4.5681\*); and
  - (2) for our sales in USD, the average USD/RM during FYE 2017 (USD1.00:RM4.2948\*) was approximately 4.4% higher than the average USD/RM during FYE 2016 (USD1.00:RM4.1154\*).

**Note:**

- \* Calculated based on total EUR/USD sales recorded in our financial statements in RM divided by total sales denominated in EUR/USD.



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Revenue contributed from our trading segment increased by RM0.78 million or 22.5% to RM4.25 million for FYE 2017 (FYE 2016: RM3.47 million). The increase in revenue was mainly attributed to the sale of 2 CNC machines which contributed to RM0.68 million in revenue (FYE 2016: nil).

Pentagon was incorporated on 3 March 2017, hence the contribution of our coating segment to our total revenue was minimal.

#### **FYE 2016**

We recorded an increase in revenue of RM6.28 million or 9.1% to RM75.16 million for FYE 2016 (FYE 2015: RM68.88 million). During the financial year, our revenue was mainly derived from our manufacturing segment (RM71.69 million or 95.4%), with the remaining revenue derived from our trading segment (RM3.47 million or 4.6%). Approximately 85.1% of our revenue was derived from overseas customers with the balance 14.9% is derived from our local customers.

Revenue contributed from our manufacturing segment increased by RM6.33 million or 9.7% to RM71.69 million for FYE 2016 (FYE 2015: RM65.36 million), while our sales quantity increased by 10.0% to about 1,059,900 pieces (FYE 2015: 963,500 pieces). The increase was mainly due to:

- (a) increase in revenue from the Malaysian market by RM2.39 million or 44.0% to RM7.82 million (FYE 2015: RM5.43 million), 92.7% of which was derived from distributors (FYE 2015: 92.1%). Our Malaysian market recorded an increase in sales quantity by 22.7% to about 126,700 pieces (FYE 2015: 103,300 pieces). The increase in revenue for FYE 2016 was mainly due to increased sales from 3 of our existing distributors. We sold about 74,200 pieces (FYE 2015: 14,000 pieces) to these distributors, which contributed RM3.96 million in revenue for FYE 2016 (FYE 2015: RM0.67 million);
- (b) increase in revenue from the European market by RM1.87 million or 5.8% to RM34.39 million (FYE 2015: RM32.52 million), all of which was derived from distributors, while sales quantity increased by 0.5% to about 472,400 pieces (FYE 2015: 470,100 pieces). The increase in revenue was mainly due to increased sales from our customers from the following countries:
  - (1) Denmark, whereby we sold about 46,700 pieces (FYE 2015: 39,700 pieces), which contributed RM3.13 million (FYE 2015: RM2.61 million);
  - (2) Italy, which contributed RM7.57 million (FYE 2015: RM7.20 million) notwithstanding we sold about 120,400 pieces for FYE 2016 compared to about 123,000 pieces for FYE 2015;
  - (3) Spain, whereby we sold about 25,000 pieces (FYE 2015: 23,700 pieces), which contributed RM1.59 million (FYE 2015: RM1.34 million); and
  - (4) new market such as United Kingdom, to which we sold about 2,900 pieces (FYE 2015: nil), which contributed RM0.38 million (FYE 2015: nil);

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- (c) increase in revenue from the Asian market (excluding Malaysia) by RM2.08 million or 7.7% to RM29.23 million (FYE 2015: RM27.15 million), 69.2% of which was derived from distributors (FYE 2015: 63.0%), while sales quantity increased by 18.4% to about 457,700 pieces (FYE 2015: 386,700 pieces). The increase in revenue was mainly due to increased sales from our customers from the following countries:
- (1) Japan, whereby we sold about 76,700 pieces (FYE 2015: 51,600 pieces), which contributed RM5.07 million (FYE 2015: RM3.26 million), all of which was derived from distributors; and
  - (2) Turkey, whereby we sold about 117,900 pieces (FYE 2015: 74,600 pieces), which contributed RM4.15 million (FYE 2015: RM2.86 million), all of which was derived from distributors; and
- (d) appreciation of the EUR and USD against RM:
- (1) for sales in EUR, the average EUR/RM during FYE 2016 (EUR1.00:RM4.5681\*) was approximately 6.1% higher than the average EUR/RM during FYE 2015 (EUR1.00:RM4.3053\*); and
  - (2) for sales in USD, the average USD/RM during FYE 2016 (USD1.00:RM4.1154\*) was approximately 7.4% higher than the average USD/RM during FYE 2015 (USD1.00:RM3.8317\*).

**Note:**

- \* Calculated based on total EUR/USD sales recorded in our financial statements in RM divided by total sales denominated in EUR/USD.

Revenue contributed from our trading segment decreased by RM0.05 million or 1.4% to RM3.47 million for FYE 2016 (FYE 2015: RM3.52 million). The decrease in revenue was mainly attributed to the shift in focus on selling our manufacturing products compared to third party products.

No revenue was generated from coating segment as Pentagon was incorporated on 3 March 2017.

#### 13.3.4.2 Cost of sales

Our cost of sales mainly comprised:

**Raw materials**

Raw materials are the main component of our cost of sales. Tungsten carbide rods are the main raw materials used in the manufacture of cutting tools. For our PVD coating business, the raw materials consist of metals used as target materials during the PVD process such as titanium, aluminium and chromium.

The prices of the raw materials are mainly influenced by the overall market supply and demand conditions. We have not experienced any shortages in the supply of our raw materials during the Period under Review.

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**Factory overheads**

Factory overheads comprise mainly the following:

- (i) packaging, freight and related charges for the delivery of our raw materials, machineries and equipment;
- (ii) depreciation on property, plant and equipment employed in our manufacturing;
- (iii) factory utilities, upkeep of machineries and equipment as well as factory rental; and
- (iv) production consumables (such as diamond grinding wheel, target materials for our in-house PVD coating facility, cleaning materials, spare parts and coolant).

**Labour costs**

Labour costs mainly consist of salaries, bonuses, EPF contribution and other staff-related benefits for manufacturing staff.

**Coating costs**

We send our cutting tools to third party service providers for coating in the event when special coatings are required (such as diamond coating which is currently not supported by our in-house and Pentagon's PVD coating facility).

Our coating costs consist of charges by third party service providers for coating as well as freight charges incurred for the purpose of sending our cutting tools for coating.

**Trading goods**

Trading goods consist of our purchases from our suppliers, freight charges, packaging materials and other cost components for our trading segment.

**(i) Costing method**

We adopt the standard costing method for our manufacturing segment, whereby a pre-determined cost is assigned to each unit produced for the purposes of estimating the cost of production for each unit, and the final cost of production is determined after taking into account any variances based on actual costs incurred. Accordingly, cost of sales for our manufacturing segment comprises (a) the standard cost of each unit produced, which is made up of raw materials, factory overheads, labour costs and coating costs; and (b) any variance between such standard cost and the actual cost incurred.

For our trading and coating segments, we recognise the cost of sales based on actual costs incurred.

**13. FINANCIAL INFORMATION****(ii) Segmental analysis**

The table below sets out our cost of sales by cost components for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
Raw materials	16,862	43.4	16,839	39.7	15,733	36.3	16,028	33.7
Factory overheads	10,545	27.2	14,099	33.2	15,269	35.3	16,275	34.2
Labour costs	6,460	16.6	7,445	17.5	8,105	18.7	9,829	20.6
Coating costs	2,581	6.7	1,764	4.2	1,161	2.7	1,340	2.8
Trading goods	2,368	6.1	2,284	5.4	3,029	7.0	4,128	8.7
<b>Total</b>	<b>38,816</b>	<b>100.0</b>	<b>42,431</b>	<b>100.0</b>	<b>43,297</b>	<b>100.0</b>	<b>47,600</b>	<b>100.0</b>

Raw materials and factory overheads are our top 2 major cost component of our cost of sales. Raw materials contributed RM16.86 million, RM16.84 million, RM15.73 million and RM16.03 million representing 43.4%, 39.7%, 36.3% and 33.7% of our total cost of sales for the Period under Review. Factory overheads make up RM10.55 million, RM14.10 million, RM15.27 million and RM16.28 million, representing 27.2%, 33.2%, 35.3% and 34.2% of our total cost of sales for the Period under Review.

**(iii) Financial commentaries****FYE 2018**

Our cost of sales increased by RM4.30 million or 9.9% to RM47.60 million for FYE 2018 (FYE 2017: RM43.30 million). The increase in cost of sales was mainly attributed to the following:

- (a) increase in labour cost by RM1.72 million or 21.2% to RM9.83 million for FYE 2018 (FYE 2017: RM8.11 million) mainly due to higher manpower costs associated with the increase in the number of production staff by 22 employees as at 31 December 2018 to 188 employees (31 December 2017: 166 employees) to meet the production requirement for the increased sales order for our manufacturing and coating segments. The increase in employees during the financial year was also in anticipation of the new machineries to be purchased in FYE 2019, as new employees need to be trained and prepared to handle the new machineries;
- (b) increase in trading goods by RM1.10 million or 36.3% to RM4.13 million for FYE 2018 (FYE 2017: RM3.03 million) which was in line with the higher revenue for the trading segment;
- (c) increase in factory overheads by RM1.01 million or 6.6% to RM16.28 million for FYE 2018 (FYE 2017: RM15.27 million) mainly due to an increase in depreciation in machinery by RM1.13 million, as well as an increase in factory overheads from Pentagon by RM0.29 million which was mainly due to its full year of operation in FYE 2018; and

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- (d) marginal increase in cost of raw materials by RM0.30 million or 1.9% to RM16.03 million for FYE 2018 (FYE 2017: RM15.73 million) mainly due to multiple increases in the price of raw materials purchased from our suppliers in the first half of FYE 2018, which resulted in the increase in the average cost for each unit of raw material during FYE 2018. The increases in the first half of FYE 2018, which was due to the increase in the price of tungsten, a global commodity, had a delayed effect on our cost of raw materials arising from the difference in timing between purchases of raw materials, conversion of the raw materials into finished goods and their eventual sales. Accordingly, due to the delayed effect, the increase in the average cost for each unit of raw material was only partially reflected in FYE 2018, resulting in a marginal increase in our cost of raw materials.

**FYE 2017**

Our cost of sales increased by RM0.87 million or 2.1% to RM43.30 million for FYE 2017 (FYE 2016: RM42.43 million). The increase in cost of sales was mainly attributed to the following:

- (a) increase in factory overheads by RM1.17 million or 8.3% to RM15.27 million for FYE 2017 (FYE 2016: RM14.10 million) mainly due to additional factory overheads incurred by our coating segment under Pentagon amounting to RM0.54 million, which had only commenced operations in FYE 2017;
- (b) increase in trading goods by RM0.75 million or 32.9% to RM3.03 million for FYE 2017 (FYE 2016: RM2.28 million) which was in line with the higher revenue for the trading segment; and
- (c) increase in labour cost by RM0.67 million or 9.0% to RM8.11 million for FYE 2017 (FYE 2016: RM7.44 million) mainly due to higher manpower costs associated with the increase in the number of production staff by 22 employees as at 31 December 2017 to 166 employees (31 December 2016: 144 employees) to meet the production requirement for the increased sales order for manufacturing segment and for our new coating segment. The increase in employees during the financial year was also in anticipation of the new machineries to be purchased in FYE 2018, as new employees need to be trained and prepared to handle the new machineries.

These were partially offset by the following:

- (a) a decrease in cost of raw materials by RM1.11 million or 6.6% to RM15.73 million for FYE 2017 (FYE 2016: RM16.84 million) mainly due to multiple reductions in the price of raw materials purchased from our suppliers in the first half of FYE 2016, which were due to the decrease in the price of tungsten, a global commodity. The cumulative effects of these reductions in the first half of FYE 2016 were not fully reflected in our cost of raw materials for the entire FYE 2016 due to the delayed effect arising from the difference in timing between purchases of raw materials, conversion of the raw materials into finished goods and their eventual sales. These reductions were realised in FYE 2017 when we converted these lower-priced raw materials into finished goods which were eventually sold during FYE 2017. These reductions, coupled with discounts given by raw materials suppliers for early settlement of invoices within 7 days (instead of the normal term of payment of 30 days) starting from the first quarter of 2017, which amounted to RM0.33 million during the financial year (FYE 2016: nil), had resulted in the decrease in the average cost for each unit of raw material during FYE 2017; and

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- (b) a decrease in coating costs undertaken by third party by RM0.60 million or 34.1% to RM1.16 million (FYE 2016: RM1.76 million) as our in-house PVD coating facility achieved an increase in efficiency during FYE 2017, which facilitated a decrease in our cutting tools being sent to third party service providers for coating.

**FYE 2016**

Our cost of sales increased by RM3.61 million or 9.3% to RM42.43 million for FYE 2016 (FYE 2015: RM38.82 million). The increase in cost of sales was mainly due to the following:

- (a) increase in factory overheads by RM3.55 million or 33.6% for FYE 2016 to RM14.10 million (FYE 2015: RM10.55 million), which was in line with higher revenue for our manufacturing segment as well as additional factory overheads incurred following the setting up of our in-house PVD coating facility for our manufacturing segment in FYE 2016, which amounted to RM1.14 million for the financial year, which included costs to prepare the site as well as spare parts and accessories for the coating machines; and
- (b) increase in labour cost by RM0.98 million or 15.2% to RM7.44 million for FYE 2017 (FYE 2016: RM6.46 million) mainly due to higher manpower costs associated with the increase in the number of production staff by 8 employees as at 31 December 2016 to 144 employees (31 December 2016: 136 employees) in anticipation of the new machineries to be purchased in FYE 2017.

These were partially offset by a decrease in coating costs by RM0.82 million or 31.8% to RM1.76 million (FYE 2016: RM2.58 million) following the setting up of our in-house PVD coating facility in FYE 2016, whereby we were able to reduce the number of our cutting tools being sent to third party service providers for coating.

Our raw materials cost for FYE 2016 remained relatively unchanged at RM16.84 million (FYE 2015: RM16.86 million) despite the increase in revenue mainly due to a decrease in the average cost for each unit of raw material as a result of reduction in the price of raw materials purchased from our suppliers in the third quarter of FYE 2015, as compared to multiple reductions in the price of raw materials in the first half of FYE 2016. The price reduction in the third quarter of FYE 2015 was reflected in our cost of raw materials when our products were sold in FYE 2016. However, the impact of the multiple reductions in the price of raw materials in the first half of FYE 2016 was not fully reflected in our cost of raw materials for the entire FYE 2016 due to the delayed effect arising from the difference in timing between purchases of raw materials, conversion of the raw materials into finished goods and their eventual sales.

**13. FINANCIAL INFORMATION****13.3.4.3 GP and GP margin****(i) Segmental analysis****Analysis by business segment**

The table below sets out our GP and GP margin by business segments for the Period under Review:

GP	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
<b>Manufacturing</b>								
Standard tools	20,951	69.7	22,487	68.7	28,544	68.2	26,030	69.0
Special tools	7,889	26.2	9,048	27.6	12,115	29.0	9,034	24.0
Sub-total	28,840	95.9	31,535	96.3	40,659	97.2	35,064	93.0
<b>Trading</b>	1,220	4.1	1,196	3.7	1,226	2.9	1,434	3.8
<b>Coating</b>	-	-	-	-	(30)	(0.1)	1,198	3.2
<b>Total</b>	<b>30,060</b>	<b>100.0</b>	<b>32,731</b>	<b>100.0</b>	<b>41,855</b>	<b>100.0</b>	<b>37,696</b>	<b>100.0</b>
<b>GP margin</b>								
		(%)		(%)		(%)		(%)
<b>Manufacturing</b>								
Standard tools		43.7		43.7		50.0		46.4
Special tools		45.3		44.8		52.7		42.0
Sub-total		44.1		44.0		50.7		45.2
<b>Trading</b>		34.7		34.4		28.9		26.0
<b>Coating</b>		-		-		(3.8)		55.9
<b>Overall GP margin</b>		<b>43.6</b>		<b>43.5</b>		<b>49.2</b>		<b>44.2</b>

**Analysis by geographical location**

The table below sets out our GP and GP margin by geographical location for the Period under Review:

GP	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
<b>Local</b>								
Malaysia	3,253	10.8	4,786	14.6	5,378	12.9	7,667	20.4
<b>Overseas</b>								
Europe	13,725	45.7	15,091	46.1	20,356	48.6	19,232	51.0
Asia (excluding Malaysia)	12,964	43.1	12,735	38.9	15,948	38.1	10,637	28.2
Others	118	0.4	119	0.4	173	0.4	160	0.4
<b>Total</b>	<b>30,060</b>	<b>100.0</b>	<b>32,731</b>	<b>100.0</b>	<b>41,855</b>	<b>100.0</b>	<b>37,696</b>	<b>100.0</b>



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<b>GP margin</b>	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	(%)	(%)	(%)	(%)
<b>Local</b>				
Malaysia	36.7	42.8	39.7	45.2
<b>Overseas</b>				
Europe	42.2	43.9	48.9	44.5
Asia (excluding Malaysia)	47.6	43.4	53.8	43.1
Others	45.0	48.7	50.9	41.5
<b>Overall GP margin</b>	<b>43.6</b>	<b>43.5</b>	<b>49.2</b>	<b>44.2</b>

**(ii) Financial commentaries****FYE 2018**

Our GP decreased by RM4.16 million or 9.9% to RM37.70 million for FYE 2018 (FYE 2017: RM41.86 million). During the financial year, our GP was mainly derived from our manufacturing segment (RM35.06 million or 93.0%), followed by trading segment (RM1.43 million or 3.8%) and coating segment (RM1.20 million or 3.2%).

Our overall GP margin decreased by 5.0% to 44.2% for FYE 2018 (FYE 2017: 49.2%).

The decrease in GP was mainly due to decrease in the GP margin for the manufacturing segment as we encountered lower sales and average selling prices in China due to increased competition, as well as unfavourable foreign exchange rates from conversion of our export sales revenue in EUR to RM due to the appreciation of MYR compared to FYE 2017. The impact of lower USD had a smaller effect on our gross profit, as 33.7% of our total cost of sales for FYE 2018, being the cost of our raw materials mainly tungsten carbide rods, is mainly denominated in USD. The decrease in GP margin for our manufacturing segment was also due to the higher labour costs associated with the increase in the number of production staff to prepare for the upcoming operation of new machines in FYE 2019.

The decrease in GP margin for trading segment by 2.9% to 26.0% for FYE 2018 (FYE 2017: 28.9%) was mainly due to the greater number of CNC machines sold, which typically have a lower margin as compared to other trading goods.

**FYE 2017**

Our GP increased by RM9.13 million or 27.9% to RM41.86 million for FYE 2017 (FYE 2016: RM32.73 million). During the financial year, our GP was mainly derived from our manufacturing segment (RM40.66 million or 97.2%), followed by trading segment (RM1.23 million or 2.9%). However, our coating segment incurred gross loss of RM0.19 million or 0.1% as this segment was incorporated in March 2017, and revenue from our coating segment for the FYE 2017 was insufficient to offset the operational costs as well as costs incurred in relation to the setting up of Pentagon's operations.

Our overall GP margin increased by 5.7% to 49.2% for FYE 2017 (FYE 2016: 43.5%).



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The increase in GP and improvement in the overall GP margin was mainly due to the improvement in the GP margin for the manufacturing segment arising from the decrease in cost of raw materials due to the decrease in the average cost for each unit of raw material, which is further elaborated in Section 13.3.4.2 of this Prospectus. In addition, we achieved favourable foreign exchange rates from conversion of our export sales revenue in EUR to RM due to the appreciation of EUR compared to FYE 2016. However, the impact of stronger USD had a smaller effect on our gross profit, as 36.3% of our total cost of sales for FYE 2017, being the cost of our raw materials mainly tungsten carbide rods, is mainly denominated in USD.

The decrease in GP margin for trading segment by 5.5% to 28.9% for FYE 2017 (FYE 2016: 34.4%) was mainly due to the sale of CNC machines which typically have a lower margin as compared to other trading goods.

#### **FYE 2016**

Our GP increased by RM2.67 million or 8.9% to RM32.73 million for FYE 2016 (FYE 2015: RM30.06 million). During the financial year, our GP was mainly derived from our manufacturing segment (RM31.54 million or 96.3%), followed by trading segment (RM1.20 million or 3.7%). The increase in our GP was in line with the increase in our sales revenue.

Our overall GP margin remained relatively stable at approximately 43.5% (FYE 2015: 43.6%). Our GP margin for our manufacturing segment remained relatively stable despite an appreciation of EUR compared to FYE 2015, as this was offset mainly by an increase in our factory overheads, which was in line with higher revenue for our manufacturing segment as well as additional factory overheads incurred following the setting up of our in-house PVD coating facility for our manufacturing segment.

#### **13.3.4.4 Other income**

Our other income comprised mainly the following:

- (i) gain on foreign exchange arising from ordinary trade transactions in foreign currencies and translation of our receivables and payables denominated in foreign currencies into RM;
- (ii) grant income from Malaysian Investment Development Authority (“MIDA”) for the purchase of machineries and equipment and is recognised as income over the estimated useful life of the machineries and equipment concerned at the rate of 10.0% per annum. Total grant amount granted for the purchase of machineries and equipment for FYE 2015, FYE 2016, FYE 2017 and FYE 2018 were RM2.30 million, RM2.09 million, RM1.89 million and RM nil respectively; and
- (iii) interest income, which refers to the interest income from our deposits placed with licensed banks.

We adopt the accrual method as part of our accounting policies, where income and expenditures are recognised at the time they are incurred. When we receive or make payments denominated in foreign currencies, it is then converted into RM, which contributes towards the realised gains or losses in foreign currency exchange. Unrealised gains or losses on foreign currency exchange are recognised for outstanding amounts on goods and services that are received, but not paid for.

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The table below sets out our other income for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
Net realised foreign exchange gain	314	27.8	1,416	58.8	-	-	-	-
Net unrealised foreign exchange gain	-	-	84	3.5	-	-	310	6.4
Government grants <sup>(1)</sup>	394	35.0	581	24.1	803	70.1	770	15.8
Interest income	258	22.9	161	6.7	308	26.9	436	8.9
Gain on disposal of property, plant and equipment	52	4.6	50	2.1	19	1.7	3,364	68.9
Rental income	109	9.7	88	3.7	14	1.2	-	-
Insurance claim	-	-	26	1.1	1	0.1	-	-
<b>Total</b>	<b>1,127</b>	<b>100.0</b>	<b>2,406</b>	<b>100.0</b>	<b>1,145</b>	<b>100.0</b>	<b>4,880</b>	<b>100.0</b>

**Note:**

- (1) Government grants comprised the following:
- (i) asset-related grants received for purchases of qualified machineries, which are recognised as income over the estimated useful life of the machineries and equipment concerned; and
  - (ii) income-related grants received for expenses incurred for approved R&D training, R&D consumables and R&D expenditure, which are recognised in the year the expenses are incurred.

The breakdown of government grants recognised in other income for the Period under Review is as follows:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	(RM '000)	(RM '000)	(RM '000)	(RM '000)
Asset-related grants (as disclosed in Note 16 to the Accountants' Report)	372	581	770	770
Income-related grants	22	-	33	-
<b>Total</b>	<b>394</b>	<b>581</b>	<b>803</b>	<b>770</b>

**Financial commentaries****FYE 2018**

Our other income increased RM3.73 million or 326.2% to RM4.88 million for FYE 2018 (FYE 2017: RM1.15 million). The increase in other income was mainly due to the increase in gain on disposal of property, plant and equipment by RM3.36 million or more than 100% to RM3.36 million for FYE 2018 (FYE 2017: RM0.02 million) due to the gain on Disposal of HK Properties by MTC Tooling to a related party as disclosed in Section 6.3.4 of this Prospectus.

**13. FINANCIAL INFORMATION****FYE 2017**

Our other income decreased by RM1.26 million or 52.3% to RM1.15 million for FYE 2017 (FYE 2016: RM2.41 million). The decrease in other income was mainly due to the following:

- (i) for FYE 2016, we recognised a net realised foreign exchange gain of RM1.42 million (as compared to a loss of RM0.47 million in FYE 2017) mainly due to timing differences between the period from when sales were recognised to the corresponding payments being received for sales denominated in EUR and USD, whereby the EUR and USD generally appreciated against the RM in FYE 2016, which resulted in actual collections being higher than the sales amount recorded in the financial statements. We also recognised a net unrealised foreign exchange gain of RM0.08 million (as compared to a loss of RM0.44 million in FYE 2017) mainly due to retranslation of outstanding balances denominated in foreign currencies as at end of FYE 2016; and
- (ii) decrease in rental income by RM0.08 million or 88.9% to RM0.01 million for FYE 2017 (FYE 2016: RM0.09 million) as a third party had ceased renting part of Block B during the financial year following the expiry of its tenancy agreement.

**FYE 2016**

Our other income increased by RM1.28 million or more than 100.0% to RM2.41 million for FYE 2016 (FYE 2015: RM1.13 million). The increase in other income was mainly due to realised and unrealised foreign exchange gain in FYE 2016 totalling RM1.50 million (FYE 2015: RM0.31 million) as well as an increase in government grant received amounting to RM0.58 million for FYE 2016 as compared to RM0.39 million for FYE 2015.

This was offset by a decrease in rental income by RM0.02 million or 18.2% to RM0.09 million (FYE 2015: RM0.11 million) as MTTs, a related party, ceased renting part of Block A during the financial year as it had ceased its operations.

**13.3.4.5 Administrative expenses**

Our administrative expenses comprise mainly of staff's salaries, bonuses, EPF contribution and other staff-related benefits for our administrative employees (employees other than directors as well as manufacturing, sales and marketing staff), depreciation for assets such as building, computers, office equipment and motor vehicles, insurance, repair and maintenance expenses and professional fees.

The table below sets out a breakdown of our administrative expenses for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
Staff cost	6,336	57.1	7,797	63.7	9,820	57.8	11,632	59.3
Depreciation	1,029	9.3	1,226	10.0	1,297	7.6	1,188	6.1
Repair & maintenance	322	2.9	475	3.9	694	4.1	395	2.0
Professional fees	176	1.6	161	1.3	1,178	6.9	3,121	15.9
Insurance	188	1.7	221	1.8	260	1.5	292	1.5
Inventory written down	-	-	-	-	487	2.9	310	1.6
Travelling	382	3.4	494	4.0	465	2.7	479	2.4

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	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
Rental	532	4.8	576	4.7	594	3.5	667	3.4
Net unrealised foreign exchange loss	733	6.6	-	-	443	2.6	-	-
Net realised foreign exchange loss	-	-	-	-	468	2.8	393	2.0
Office supplies	214	1.9	204	1.7	200	1.2	257	1.3
Security fees	130	1.2	128	1.1	132	0.8	129	0.7
Bank charges	252	2.3	203	1.7	136	0.8	131	0.7
Motor vehicle expenses	130	1.2	111	0.9	55	0.3	66	0.3
License and register fee	99	0.9	140	1.1	167	1.0	230	1.2
Others <sup>(1)</sup>	582	5.1	505	4.1	599	3.5	322	1.6
<b>Total</b>	<b>11,105</b>	<b>100.0</b>	<b>12,241</b>	<b>100.0</b>	<b>16,995</b>	<b>100.0</b>	<b>19,612</b>	<b>100.0</b>

**Note:**

- (1) Included in others are costs for quit rent and assessment, donation and upkeep of computers, each of which is less than 1.0% of the administrative expenses.

**Financial commentaries****FYE 2018**

Our administrative expenses increased by RM2.61 million or 15.4% to RM19.61 million for FYE 2018 (FYE 2017: RM17.00 million). The increase in administrative expenses was mainly due to the following:

- (i) increase in staff cost by RM1.81 million or 18.4% to RM11.63 million for FYE 2018 (FYE 2017: RM9.82 million) mainly due to increase in directors' remuneration and administrative staff cost. The administrative staff cost rose by RM1.17 million mainly attributed to the increase in the average number of administrative employees by 4 employees for FYE 2018 (one of whom is a general manager who was employed in July 2018) as well as increase in salary costs for existing staff; and
- (ii) increase in professional fees by RM1.94 million or more than 100.0% to RM3.12 million for FYE 2018 (FYE 2017: RM1.18 million) mainly due to fees incurred for our IPO, which amounted to RM1.67 million.

**13. FINANCIAL INFORMATION****FYE 2017**

Our administrative expenses increased by RM4.76 million or 38.8% to RM17.00 million for FYE 2017 (FYE 2016: RM12.24 million). The increase in administrative expenses was mainly due to the following:

- (i) increase in staff cost by RM2.02 million or 25.9% to RM9.82 million for FYE 2017 (FYE 2016: RM7.80 million) mainly due to increase in directors' remuneration and administrative staff cost. The administrative staff cost rose by RM1.47 million mainly attributed to the increase in the average number of administrative employees in Malaysia by 8 employees for FYE 2017 (one of whom is the director of Pentagon, which was incorporated in March 2017) as well as increase in salary costs for existing staff;
- (ii) increase in professional fees by RM1.02 million or more than 100.0% to RM1.18 million for FYE 2017 (FYE 2016: RM0.16 million) mainly due to fees incurred for our IPO;
- (iii) increase in repair and maintenance costs by RM0.21 million or 43.8% to RM0.69 million for FYE 2017 (FYE 2016: RM0.48 million) mainly due to office renovation work at our Malaysian office;
- (iv) inventory written down amounting to RM0.49 million for FYE 2017 (FYE 2016: nil), which is related to a provision made for slow-moving inventory in line with our Group's policy for slow-moving inventory as set out in Section 13.5.3 of this Prospectus; and
- (v) a net realised foreign exchange loss of RM0.47 million for FYE 2017 (FYE 2016: nil) mainly due to timing differences between the period from when sales were recognised to the corresponding payments being received from sales denominated in USD, whereby the USD depreciated against the RM in FYE 2017, which resulted in actual collections being lower than the sales amount recorded in the financial statements. We also recognised a net unrealised foreign exchange loss of RM0.44 million for FYE 2017 (FYE 2016: nil), mainly due to the retranslation of outstanding balances denominated in foreign currencies as at end of FYE 2017.

**FYE 2016**

Our administrative expenses increased by RM1.13 million or 10.2% to RM12.24 million for FYE 2016 (FYE 2015: RM11.11 million). The increase in administrative expenses was mainly due to the following:

- (i) increase in staff cost by RM1.46 million or 23.1% to RM7.80 million for FYE 2016 (FYE 2015: RM6.34 million) mainly due to increase in directors' remuneration and administrative staff cost. The administrative staff cost rose by RM0.63 million mainly attributed to the increase in the average number of administrative employees in Malaysia by 4 employees for FYE 2016 as well as increase in salary costs for existing staff; and
- (ii) increase in repair and maintenance costs by RM0.16 million or 50.0% to RM0.48 million for FYE 2016 (FYE 2015: RM0.32 million) mainly due to office renovation work at our Malaysian office.

These were offset by the decrease in unrealised foreign exchange loss amounting to RM0.73 million for FYE 2015 as compared to nil for FYE 2016.

**13. FINANCIAL INFORMATION****13.3.4.6 Distribution expenses**

Our distribution expenses comprise mainly of freight charges for delivery of our products to customers, advertising, promotion expenses and staff's salaries, bonuses, EPF contribution and other staff-related benefits for our sales and marketing team and warehouse personnel.

The table below sets out a breakdown of our distribution expenses for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
Staff cost	2,328	50.7	3,065	59.4	3,487	52.6	3,378	54.1
Freight charges	1,151	25.1	1,141	22.1	1,527	23.0	1,617	25.9
Exhibition expenses	192	4.2	208	4.0	436	6.6	198	3.2
Marketing expenses	123	2.7	66	1.3	230	3.5	158	2.5
Travelling	334	7.3	337	6.6	337	5.1	497	7.9
Entertainment expenses	293	6.4	147	2.8	368	5.5	151	2.4
Others <sup>(1)</sup>	166	3.6	195	3.8	245	3.7	248	4.0
<b>Total</b>	<b>4,587</b>	<b>100.0</b>	<b>5,159</b>	<b>100.0</b>	<b>6,630</b>	<b>100.0</b>	<b>6,247</b>	<b>100.0</b>

**Note:**

- (1) Others comprised of sales commission and expenses related to the enhancement of our Company's website.

**Financial commentaries****FYE 2018**

Our distribution expenses decreased by RM0.38 million or 5.7% to RM6.25 million for FYE 2018 (FYE 2017: RM6.63 million). The decrease in distribution expenses was mainly due to the decrease in exhibition expenses by RM0.24 million or 54.5% to RM0.20 million for FYE 2018 (FYE 2017: RM0.44 million) mainly due to the lower participation fees for AMB in FYE 2018 as compared to participation fees for EMO in FYE 2017.

**FYE 2017**

Our distribution expenses increased by RM1.47 million or 28.5% to RM6.63 million for FYE 2017 (FYE 2016: RM5.16 million). The increase in distribution expenses was mainly due to the following:

- (i) increase in staff cost of RM0.42 million or 13.7% to RM3.49 million for FYE 2017 (FYE 2016: RM3.07 million) mainly due to increase in our sales and marketing staff cost. The sales and marketing staff cost rose by RM0.42 million mainly attributed to the increase in the average number of sales and marketing employees by 9 employees (7 employees in Malaysia and 2 employees in Germany) for FYE 2017 as compared to FYE 2016 in order to support the increased sales to distributors as well as end-users;
- (ii) increase in freight charges of RM0.39 million or 34.2% to RM1.53 million for FYE 2017 (FYE 2016: RM1.14 million), which was mainly due to increase in revenue; and

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- (iii) increase in exhibition expenses by RM0.23 million or more than 100.0% to RM0.44 million for FYE 2017 (FYE 2016: RM0.21 million) mainly for our participation in EMO in FYE 2017 as described in Section 7.5.3 of this Prospectus.

#### **FYE 2016**

Our distribution expenses increased by RM0.57 million or 12.4% to RM5.16 million for FYE 2016 (FYE 2015: RM4.59 million). The increase in distribution expenses was mainly attributed to the increase in our sales and marketing staff cost of RM0.74 million or 31.8% to RM3.07 million for FYE 2016 (FYE 2015: RM2.33 million). Our sales and marketing staff cost rose by RM0.74 million mainly attributed to the increase in the average number of sales and marketing employees in Malaysia by 8 employees for FYE 2016 as compared to FYE 2015 in order to support the increased sales to distributors as well as end-users.

Freight charges remained relatively unchanged for FYE 2016 notwithstanding an increase in revenue due to a reduction in fuel surcharges imposed by our freight service providers during the financial year.

#### **13.3.4.7 Finance costs**

Our finance costs consisted of interest expenses on our bank borrowings during the Period under Review. Such borrowings were obtained by us to mainly purchase our manufacturing equipment.

The table below sets out our finance costs for the Period under Review:

	FYE 2015		FYE 2016		FYE 2017		FYE 2018	
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)	(RM '000)	(%)
Term loans	684	60.7	751	67.0	643	70.7	750	72.3
Finance lease liabilities	237	21.0	170	15.2	82	9.0	39	3.8
Bankers' acceptances	169	15.0	130	11.6	98	10.8	204	19.6
Commitment fees	21	1.9	20	1.8	21	2.3	23	2.2
Bank overdrafts	15	1.4	49	4.4	66	7.2	22	2.1
<b>Total</b>	<b>1,126</b>	<b>100.0</b>	<b>1,120</b>	<b>100.0</b>	<b>910</b>	<b>100.0</b>	<b>1,038</b>	<b>100.0</b>

For more details of our bank borrowings, see Section 13.4.3 of this Prospectus.

#### **Financial commentaries**

#### **FYE 2018**

Our finance costs increased by RM0.13 million or 14.3% to RM1.04 million for FYE 2018 (FYE 2017: RM0.91 million). The increase in finance cost during the financial year was mainly due to the additional 3 new term loans obtained to finance the purchase of plant and machineries in FYE 2018.

#### **FYE 2017**

Our finance costs decreased by RM0.21 million or 18.8% to RM0.91 million for FYE 2017 (FYE 2016: RM1.12 million). The decrease in finance cost during the financial year was mainly due to settlement of the finance lease liabilities and full repayment of one of our term loans.

**13. FINANCIAL INFORMATION****FYE 2016**

Our finance cost for both FYE 2016 and FYE 2015 remained relatively unchanged.

**13.3.4.8 PBT and PBT margin**

The improvement in our PBT and PBT margin is in line with the growth in our revenue and improvement in GP and GP margin for the Period under Review.

Our PBT and PBT margin for the Period under Review are set out below:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
PBT (RM '000)	14,369	16,617	18,465	15,679
PBT margin (%)	20.9	22.1	21.7	18.4

**Financial commentaries****FYE 2018**

Our PBT decreased by RM2.79 million or 15.1% to RM15.68 million for FYE 2018 (FYE 2017: RM18.47 million). The decrease in PBT was mainly due to lower GP recorded particularly from the manufacturing segment during the financial year. Our PBT margin decreased by 3.3% to 18.4% for FYE 2018 (FYE 2017: 21.7%) mainly due to lower GP margin, which was further compounded by higher administrative expenses as a result of higher staff costs and higher professional fees incurred during FYE 2018.

**FYE 2017**

Our PBT increased by RM1.85 million or 11.1% to RM18.47 million for FYE 2017 (FYE 2016: RM16.62 million). The increase in PBT was mainly due to higher GP recorded particularly from the manufacturing segment during the financial year. Despite the higher PBT, our PBT margin decreased slightly by 0.4% to 21.7% for FYE 2017 (FYE 2016: 22.1%) mainly due higher administrative expenses as a result of higher staff costs and higher professional expenses incurred during FYE 2017.

**FYE 2016**

Our PBT increased by RM2.25 million or 15.6% to RM16.62 million for FYE 2016 (FYE 2015: RM14.37 million). The increase in PBT was mainly due to higher GP recorded particularly from the manufacturing segment during the financial year. Our PBT margin increased by 1.2% to 22.1% for FYE 2016 (FYE 2015: 20.9%).



### 13. FINANCIAL INFORMATION

#### 13.3.4.9 Taxation

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which our Subsidiaries are domiciled and operated.

Our Company and Subsidiaries are incorporated in different jurisdictions, with different taxation requirements. The statutory corporate tax rates of entities within our Group for the Period under Review are as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	(%)	(%)	(%)	(%)
Malaysia	25.0	24.0	24.0	24.0
Germany	28.775	28.775	28.775	28.775
Hong Kong	16.5	16.5	16.5	<sup>(1)</sup> 8.25
China	25.0	25.0	25.0	25.0

**Note:**

- (1) The Hong Kong government had on 29 December 2017 introduced a two-tiered rates of profits tax for the year of assessment commencing on or after 1 April 2018 whereby the tax rate for a corporation was reduced to 8.25% for the first HKD2.00 million assessable profits. Any excess above HKD2.00 million in assessable profits is taxed at 16.5%.

The different statutory corporate tax rates of our foreign Subsidiaries would result in a difference between the taxable income in Malaysia if we were to directly sell to the customers of the foreign Subsidiaries as opposed to selling through the foreign Subsidiary. For example, if we were to directly sell to the customers of MTC Tooling, the sale would be subject to a statutory tax rate of 24.0% in Malaysia, rather than a lower statutory tax rate of 8.25% in Hong Kong. On the other hand, if we were to directly sell to the customers of HPMT GmbH, the sale would be subject to a statutory tax rate of 24.0% in Malaysia rather than a higher statutory tax rate of 28.775% in Germany.

Withholding tax is charged on rendering of services by non-resident companies/persons in Malaysia and vice versa. There was no withholding tax impact between our foreign Subsidiaries and our Company as our foreign Subsidiaries do not provide any services or pay any royalties to our Company. Sales of our cutting tools to overseas customers are also not subject to withholding tax.

Our taxation and our effective tax rates for the Period under Review are set out below:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	(RM '000)	(RM '000)	(RM '000)	(RM '000)
Taxation	2,981	3,484	3,575	1,927
• Malaysia	2,558	3,144	3,242	1,738
• Germany	172	211	105	90
• Hong Kong	140	87	112	(14)
• China	111	42	116	113
Effective tax rate (%)	20.8	21.0	19.4	12.3

## 13. FINANCIAL INFORMATION

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### Financial commentaries

#### **FYE 2018**

Our effective tax rate for FYE 2018 was 12.3% which was lower than the statutory tax rate. This was mainly due to reinvestment allowance claimed, which amounted to RM2.14 million and, the gain arising from the Disposal of HK Properties which amounted to RM3.36 million and government grant recognised in other income which amounted to RM0.77 million, which were tax exempt.

#### **FYE 2017**

Our effective tax rate for FYE 2017 was 19.4% which was lower than the statutory tax rate. This was mainly due to government grant recognised in other income which amounted to RM0.80 million and was tax exempt, and reinvestment allowance claimed, which amounted to RM5.07 million.

#### **FYE 2016**

Our effective tax rate for FYE 2016 was 21.0% which was lower than the statutory tax rate in Malaysia. This was mainly due to government grant recognised in other income which amounted to RM0.58 million and was tax exempt, and reinvestment allowance claimed, which amounted to RM2.98 million.

### 13.3.5 Exceptional and extraordinary items

There were no exceptional and extraordinary items for the Period under Review.

### 13.3.6 Significant changes

There are no significant changes that have occurred, which may have a material effect on our financial position and result since FYE 2018, being our most recent annual financial statements.

## 13.4 LIQUIDITY AND CAPITAL RESOURCES

### 13.4.1 Working capital

Our business is financed by a combination of internal and external sources of funds. The internal funds are mainly shareholders' equity and cash generated from the operations while the external sources of funds are the various credit facilities extended to us by our suppliers as well as borrowings, finance lease and trade line facilities granted by financial institutions. The principal uses of these funds are for working capital purposes such as purchases of raw materials and trade payments to suppliers as well as purchases of machineries and equipment, motor vehicles and factory buildings. Cash generated from operations is mainly the collections from our customers.

As at 31 December 2018, we have:

- (i) cash and bank balances (net of bank overdrafts) and short-term deposits placed with licensed banks of approximately RM13.14 million; and
- (ii) credit facilities (i.e. bankers' acceptance, bank overdrafts and revolving credit) up to a total limit of RM36.73 million, of which RM5.19 million is outstanding.

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After taking into consideration our existing level of cash and bank balances, expected cash flow to be generated from our operations, bank facilities and the estimated proceeds from the Public Issue, our Board is of the view that we will have sufficient working capital for a period of 12 months from the date of this Prospectus to meet our present and foreseeable requirements.

#### 13.4.2 Cash flow summary

The table below sets out the summary of our combined statements of cash flows for the Period under Review and should be read in conjunction with the Accountants' Report as set out in Section 15 of this Prospectus.

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
Net cash from operating activities	10,263	19,350	21,326	12,348
Net cash (used in)/from investing activities	(6,184)	3,822	(9,868)	3,397
Net cash used in financing activities	(9,557)	(21,122)	(9,158)	(14,277)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,478)</b>	<b>2,050</b>	<b>2,300</b>	<b>1,468</b>
Cash and cash equivalents at beginning of the financial year	12,513	7,358	9,361	11,701
Effect of foreign exchange rates changes	323	(47)	40	(25)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>7,358</b>	<b>9,361</b>	<b>11,701</b>	<b>13,144</b>
<b>Cash and cash equivalents comprised the following:</b>				
• Cash and bank balances	7,486	10,554	10,608	13,235
• Short-term deposits placed with licensed banks	800	-	2,300	-
• Cash and cash equivalents under assets classified held for sale	-	-	27	-
	8,286	10,554	12,935	13,235
Less: Bank overdraft	(928)	(1,193)	(1,234)	(91)
	<b>7,358</b>	<b>9,361</b>	<b>11,701</b>	<b>13,144</b>

#### Financial commentaries

##### **FYE 2018**

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

For FYE 2018, we recorded net cash from operating activities of RM12.35 million (FYE 2017: RM21.33 million) mainly due to an increase in payments to suppliers for overhead, which was in line with higher amount of trading goods purchased as well as higher professional fees incurred throughout FYE 2018, coupled with higher payment of staff salaries, which was in line with the higher average number of employees in FYE 2018.

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Cash receipts from our customers amounted to RM86.90 million. Some of the major cash receipts were mainly from the following customers:

- (i) a total of RM17.67 million cash receipts from our Malaysian customers; and
- (ii) a total of RM69.23 million cash receipts from our overseas customers, of which:
  - (a) RM13.96 million from customers in Germany;
  - (b) RM12.25 million from customers in Italy;
  - (c) RM8.32 million from customers in China; and
  - (d) RM5.45 million from customers in Japan.

Cash paid amounted to RM74.55 million were mainly for the following:

- (i) payment to suppliers of RM47.42 million. These payments were mainly for the following:
  - (a) RM6.62 million in cash and drawdown of bankers' acceptances amounting to RM11.87 million for purchases of raw materials such as tungsten carbide rods; and
  - (b) RM28.93 million for overhead such as utilities and operational expenses, including payments made for professional fees;
- (ii) payment of staff salaries of RM24.16 million, including salaries, bonuses, EPF contribution and other staff-related benefits; and
- (iii) income tax paid of RM2.97 million.

#### ***Net cash from investing activities***

For FYE 2018, we recorded a net cash inflow of RM3.40 million from our investing activities mainly attributed to the following:

- (i) proceeds from disposal of property, plant and equipment, which mainly comprised of proceeds received from Disposal of HK Properties amounting to RM4.53 million;
- (ii) proceeds from disposal of other investment amounting to RM9.00 million from asset management fund; and
- (iii) interest arising from money market placement and interest from foreign currency bank account maintained of RM0.41 million.

This is partially offset by purchase of property, plant and equipment amounting to RM10.54 million, comprising the Acquisition of Block C amounting to RM7.21 million, plant and machinery of RM2.60 million, motor vehicle of RM0.02 million, office equipment of RM0.43 million and computer and software of RM0.28 million.

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

For FYE 2018, we recorded a net cash outflow of RM14.28 million from our financing activities, mainly comprising:

- (i) payment of dividends amounting to RM9.09 million;

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- (ii) net repayment of RM6.99 million on term loans and net repayment of RM0.31 million on finance lease liabilities; and
- (iii) payment of interest on term loans, hire purchase and bankers' acceptance amounting to RM0.99 million.

This is partially offset by the drawdown of bankers' acceptance of RM2.54 million.

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

For FYE 2017, we recorded net cash from operating activities of RM21.33 million where cash receipts were from our customers in line with the higher revenue recorded for the FYE 2017 of RM85.15 million (FYE 2016: RM75.16 million), which was offset against cash paid mainly to our suppliers, employees and tax payments.

Cash receipts from our customers amounted to RM84.85 million. Some of the major cash receipts were mainly from the following customers:

- (i) a total of RM13.55 million cash receipts from our Malaysian customers; and
- (ii) a total of RM71.30 million cash receipts from our overseas customers, of which:
  - (a) RM12.67 million from customers in Germany;
  - (b) RM10.43 million from customers in Italy;
  - (c) RM9.33 million from customers in China; and
  - (d) RM5.59 million from customers in Japan.

Cash paid amounted to RM63.52 million were mainly for the following:

- (i) payment to suppliers of RM40.30 million. These payments were mainly for the following:
  - (a) RM10.37 million in cash and drawdown of bankers' acceptances amounting to RM6.85 million for purchases of raw materials such as tungsten carbide rods; and
  - (b) RM23.08 million for overhead such as utilities and operational expenses;
- (ii) payment of staff salaries of RM20.16 million, including salaries, bonuses, EPF contribution and other staff-related benefits; and
- (iii) income tax paid of RM3.05 million.

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

For FYE 2017, we recorded a net cash outflow of RM9.87 million from our investing activities mainly attributed to the following:

- (i) purchase of property, plant and equipment amounting to RM7.71 million, comprising of plant and machinery of RM6.22 million, renovation and electrical installation of RM0.09 million, motor vehicle of RM0.05 million, office equipment of RM0.16 million, computer and software of RM0.17 million and work-in-progress of RM1.02 million; and

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- (ii) additional investment of our excess cash into asset management funds amounting to RM3.63 million.

This is partially offset by the following:

- (i) government grant of RM1.13 million;
- (ii) interest arising from money market placement and interest from foreign currency bank account maintained of RM0.30 million; and
- (iii) proceeds from disposal of property, plant and equipment, comprising of office and factory equipment and motor vehicles of RM0.05 million.

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

For FYE 2017, we recorded a net cash outflow of RM9.16 million from our financing activities, mainly comprising:

- (i) payment of dividends amounting to RM5.50 million;
- (ii) net repayment of RM5.33 million on term loans, as well as net repayment of RM0.67 million on finance lease liabilities and RM0.24 million on bankers' acceptances; and
- (iii) payment of interest on term loans, hire purchase and bankers' acceptances amounting to RM0.89 million.

**FYE 2016*****Net cash from operating activities***

We recorded net cash from operating activities of RM19.35 million where cash receipts were from our customers in line with the higher revenue recorded for the FYE 2016 of RM75.16 million (FYE 2015: RM68.88 million), which was offset against cash paid mainly to our suppliers and employees and tax payments.

Cash receipts from our customers amounted to RM71.05 million. Some of the major cash receipts were mainly from the following customers:

- (i) a total of RM11.81 million cash receipts from our Malaysian customers; and
- (ii) a total of RM59.23 million cash receipts from our overseas customers, of which:
  - (a) RM11.52 million from customers in Germany;
  - (b) RM8.73 million from customers in China;
  - (c) RM6.90 million from customers in Italy; and
  - (d) RM5.21 million from customers in Japan.

Cash paid amounted to RM51.70 million were mainly for the following:

- (i) payment to suppliers of RM32.06 million. These payments were mainly for the following:
  - (a) RM6.37 million in cash and drawdown of bankers' acceptances amounting to RM9.20 million for purchases of raw materials such as tungsten carbide rods; and

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- (b) RM16.49 million for factory overhead such as utilities and operational expenses;
- (ii) payment of staff salaries of RM16.27 million, including salaries, bonuses, EPF contribution and other staff-related benefits; and
- (iii) income tax paid of RM3.34 million.

***Net cash from investing activities***

For FYE 2016, we recorded a net cash inflow of RM3.82 million from our investing activities mainly due to:

- (i) proceeds from sale of other investments, which comprised of asset management fund amounting to RM2.87 million;
- (ii) government grants amounting to RM1.51 million; and
- (iii) interest arising from money market placement and interest from foreign currency bank account maintained amounting to RM0.16 million.

This is partially offset by purchase of property, plant and equipment amounting to RM0.76 million, comprising plant and machinery of RM0.46 million, office equipment of RM0.15 million, and computers and software of RM0.15 million.

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

For FYE 2016, we recorded a net cash outflow of RM21.12 million from our financing activities, mainly comprising:

- (i) payment of dividends amounting to RM8.33 million;
- (ii) net repayment of RM6.99 million on term loans, as well as net repayment of RM1.47 million on finance lease liabilities and RM3.27 million on bankers' acceptances; and
- (iii) payment of interest in relation to term loans, hire purchase and bankers' acceptances amounting to RM1.10 million.

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

We recorded net cash from operating activities of RM10.26 million where cash receipts were from our customers, which was offset against cash paid mainly to our suppliers and employees and tax payments.

Cash receipts from our customers amounted to RM66.16 million. Some of the major cash receipts were mainly from the following customers:

- (i) a total of RM8.59 million cash receipts from our Malaysian customers; and
- (ii) a total of RM57.57 million cash receipts from our overseas customers, of which:
  - (a) RM10.39 million from customers in Germany;
  - (b) RM9.28 million from customers in China;

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- (c) RM7.49 million from customers in Italy; and
- (d) RM3.21 million from customers in Japan.

Cash paid amounted to RM55.89 million were mainly for the following:

- (i) payment to suppliers of RM39.52 million. These payments were mainly for the following:
  - (a) RM2.04 million in cash and drawdown of bankers' acceptances amounting to RM15.27 million for purchases of raw materials such as tungsten carbide rods; and
  - (b) RM22.21 million for overhead such as utilities and operational expenses;
- (ii) payment of staff salaries of RM13.35 million, including salaries, bonuses, EPF contribution and other staff-related benefits; and
- (iii) income tax paid of RM2.99 million.

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

For FYE 2015, we recorded a net cash outflow of RM6.18 million from our investing activities mainly due to:

- (i) investing our excess cash in asset management funds amounting to RM5.47 million; and
- (ii) purchase of fixed assets amounting to RM2.97 million, comprising primarily of plant and machinery of RM1.07 million, electrical installation of RM1.71 million, office equipment of RM0.08 million, motor vehicle of RM0.01 million, and computer and software of RM0.10 million.

This is partially offset by the proceeds received from the sale of fixed assets, which is motor vehicle amounting to RM0.07 million, government grants amounting to RM1.93 million as well as interest arising from money market placement and interest from foreign currency bank account maintained amounting to RM0.26 million.

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

For FYE 2015, we recorded a net cash outflow of RM9.56 million from our financing activities, mainly comprising:

- (i) payment of dividends amounting to RM3.50 million;
- (ii) net repayment of RM4.81 million on term loans, as well as net repayment of RM1.65 million on finance lease liabilities and RM0.18 million on bankers' acceptances; and
- (iii) payment of interest on term loans, hire purchase and bankers' acceptance amounting to RM1.09 million.



**13. FINANCIAL INFORMATION****13.4.3 Borrowings and financial instruments**

We utilise credit facilities such as overdrafts and bankers' acceptances to partially finance our working capital. In addition, we also utilise term loans and finance lease to finance the purchase of our manufacturing equipment and factory land and building. The credit facilities are secured by corporate guarantees, joint and several guarantees by directors, specific debentures and properties.

Our total outstanding bank borrowings as at 31 December 2018 stood at RM39.51 million, details of which are set out below. All our bank borrowings are interest bearing.

Type of borrowings (Purpose)	Tenure	Interest rate (% per annum)	Currency	Foreign currency amount ( '000)	Amount (RM '000)
<b>Payable within 1 year</b>					
Term loans (Finance purchase of machineries and equipment and factory land and building <sup>(3)</sup> )	5 to 10 years	Effective cost of fund ("ECOF") + 1.25% to ECOF + 2.0%; Cost of fund ("COF") + 2.6%	RM EUR	- 1,233	2,283 ( <sup>1</sup> )5,828
Bankers' acceptance (Working capital)	Up to 150 days	Acceptance commission at 1.0%	RM USD	- 108	4,198 ( <sup>2</sup> )450
Bank overdraft (Working capital)	Payable on demand	Base lending rate + 1.5%; COF + 1.5%	RM	-	91
Revolving credit (Working capital)	Up to 150 days	ECOF + 2.5%	RM	-	450
Finance lease liabilities (Finance purchase of motor vehicle)	4 to 7 years	2.08% to 3.12%	RM	-	314
				<b>Sub-total</b>	<b>13,614</b>
<b>Payable after 1 year</b>					
Term loans (Finance purchase of machineries and equipment and factory land and building <sup>(3)</sup> )	5 to 10 years	ECOF + 1.25% to ECOF + 2.0%; COF + 2.6%	RM EUR	- 2,276	14,844 ( <sup>1</sup> )10,759
Finance lease liabilities (Finance purchase of motor vehicle)	4 to 7 years	2.08% to 3.12%	RM	-	291
				<b>Sub-total</b>	<b>25,894</b>
<b>Total borrowings</b>					<b>39,508</b>
Gearing ratio (times) <sup>(4)</sup>					0.53

**Notes:**

- (1) Based on the middle rate of EUR1.00:RM4.7279 at 5.00 p.m. on 31 December 2018 as published by BNM.
- (2) Based on the middle rate of USD1.00:RM4.1360 at 5.00 p.m. on 31 December 2018 as published by BNM.

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- (3) Part of the term loans were used to partially finance Acquisition of Block C.  
 (4) Computed based on total indebtedness over our shareholders' equity.

As at 31 December 2018, our floating and fixed rate borrowings are as set out below:

	Floating rate borrowings		Fixed rate borrowings		Total
	(RM '000)	(%)	(RM '000)	(%)	(RM '000)
Borrowings	34,255	86.7	5,253	13.3	39,508

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

We have not defaulted on payments of principal sum and/or interest in respect of any of our borrowings throughout FYE 2018 and up to the LPD.

For FYE 2015 to FYE 2018, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders. We do not encounter any seasonality in our borrowings trend.

**13.4.4 Types of financial instruments used**

As at 31 December 2018, our financial instruments, from an accounting perspective, comprised of cash and cash equivalents, borrowings, trade and other receivables as well as trade and other payables, as shown on the combined statements of financial position. We use the abovementioned financial instruments in the ordinary course of our business.

In addition to the above, we had used forward currency contracts to manage some of our transaction exposure. During the Period under Review, we have entered into a number of forward currency contracts to hedge our foreign currency exposure against the EUR and USD and as at the LPD, these forward currency contracts have been fully settled.

During FYE 2017, we also entered into an interest rate swap transaction to manage floating interest rates arising from a term loan. The notional amount of our outstanding interest rate swap transaction as at 31 December 2018 is RM1.79 million (31 December 2017: RM2.53 million).

We assess all unsettled contracts at the end of each financial year and determine the impact of any foreign currency differences arising from the translation of the outstanding forward currency contracts into RM. We did not record any unrealised gains or losses from derivative financial assets or liabilities for the Period under Review as the differences in fair value were not material.

**13.4.5 Treasury policies and objectives**

Our treasury policy is to maintain sufficient working capital to finance our operations and meet our anticipated commitments arising from our operational expenditure and financial liabilities by maintaining adequate liquidity and credit facilities.

We manage our liquidity to ensure access to sufficient funding at acceptable costs to meet our business needs and financial obligations throughout our business. We have historically relied on external unsecured and secured sources, including credit extended by our suppliers, term loans, revolving credits and other borrowings from financial institutions. Our funding policy is to obtain the most suitable type of financing and favourable cost of funding as our financing needs arise.

### 13. FINANCIAL INFORMATION

#### 13.4.6 Material commitments

As at the LPD, our material commitments consist of the following:

	<b>As at the LPD</b>
	<b>(RM '000)</b>
<b>Approved and contracted for</b>	
• Purchase of machineries and equipment	6,479
<b>Approved but not contracted for</b>	
• Purchase of machineries and equipment	27,876
<b>Total</b>	<b>34,355</b>

We expect to meet our material commitments through our internally generated funds and bank borrowings as well as RM34.00 million from the proceeds from the Public Issue. We have adequate space to increase our manufacturing capacity and hence, we do not expect to incur any material capital expenditure in relation to land and buildings other than disclosed above. See Section 4.8 of this Prospectus for further details on the use of our IPO proceeds and Section 7.12 of this Prospectus for our future plans.

Other than the above, there are no material commitments incurred or known to be incurred by us that have not been provided for, which upon becoming enforceable, may have a material impact on our business, financial performance or financial position.

#### 13.4.7 Material litigation or claims

As at the LPD, neither our Company nor our Subsidiaries is engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability.

#### 13.4.8 Contingent liabilities

As at the LPD, our Board, having made reasonable inquiry, has reasonable grounds to believe that there are no material contingent liabilities which have become enforceable or are likely to become enforceable, which may materially and adversely affect the business or financial position of our Group.

### 13.5 KEY FINANCIAL RATIOS

Our key financial ratios for the Period under Review were as follows:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Trade receivables turnover (days)	78	87	77	67
Trade payables turnover (days)	29	31	18	10
Inventories turnover (days)	189	170	175	188
Current ratio (times)	2.11	2.28	2.15	2.27
Gearing ratio (times)	0.52	0.38	0.34	0.53

**13. FINANCIAL INFORMATION****13.5.1 Trade receivables**

A summary of our trade receivables for the Period under Review is set out below:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
Trade receivables denominated in:				
• RM	4,045	5,756	5,935	5,115
• EUR	5,839	6,847	7,300	5,827
• USD	4,546	5,095	4,196	3,629
• CNY	142	103	482	882
• SGD	137	187	167	213
• IDR	-	-	4	-
	<u>14,709</u>	<u>17,988</u>	<u>18,084</u>	<u>15,666</u>
Less: Impairment loss	(12)	(25)	(116)	(25)
<b>Total (net)<sup>(1)</sup></b>	<b><u>14,697</u></b>	<b><u>17,963</u></b>	<b><u>17,968</u></b>	<b><u>15,641</u></b>
Revenue	68,876	75,162	85,152	85,296
Trade receivables turnover (days) <sup>(2)</sup>	78	87	77	67

**Notes:**

- (1) Balances of trade receivables as at the end of the respective financial years.
- (2) Trade receivables over our revenue for the respective financial year multiplied by 365 days.

The credit period generally granted by us to our customers is in the range of 30 to 90 days. Our credit term to customers are assessed and approved on a case-by-case basis after taking into consideration various factors such as our business relationship with our customers, our marketing strategies, our customers' payment history and our customers' creditworthiness.

Our trade receivables turnover periods for FYE 2015 to FYE 2018 were within the normal credit period granted, i.e. within the range of 30 to 90 days. Our deliveries, good working relationship with our customers are the key components for prompt payments from our customers.

Trade receivables turnover period increased from approximately 78 days for FYE 2015 to approximately 87 days for FYE 2016. The higher trade receivables turnover period for FYE 2016 was due to higher billing to our customer for the financial year.

Trade receivables turnover period decreased from approximately 87 days in FYE 2016 to approximately 77 days in FYE 2017 and subsequently to 67 days in FYE 2018 as a result of improved collections from our customers for both FYE 2017 and FYE 2018.

We have not experienced any instances of material bad debts for the Period under Review. We wrote off bad debts amounting to RM72,000 in FYE 2015, RM12,000 in FYE 2016, RM nil in FYE 2017 and RM91,000 in FYE 2018. We will assess the collectability of trade receivables on an individual customer basis and impairment will be made for those customers where recoverability is uncertain based on our past dealings with customers.

**13. FINANCIAL INFORMATION****Ageing analysis of trade receivables as at 31 December 2018**

	Exceeding credit period				Total
	Within credit period	Not more than 30 days overdue	Between 31 to 90 days overdue	More than 90 days overdue	
Trade receivables (RM '000)	11,067	2,567	1,838	194	15,666
Less: Impairment loss (RM '000)	-	-	-	(25)	(25)
<b>Trade receivables (net) (RM '000)</b>	<b>11,067</b>	<b>2,567</b>	<b>1,838</b>	<b>169</b>	<b>15,641</b>
% of trade receivables	70.8	16.4	11.8	1.0	100.0
Subsequent collections up to and including the LPD (RM '000)	10,240	2,567	1,838	169	14,814
<b>Outstanding trade receivables as at the LPD (RM '000)</b>	<b>827</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>827</b>
% of trade receivables net of subsequent collections	100.0	-	-	-	100.0

As at 31 December 2018, our total trade receivables stood at approximately RM15.64 million, of which approximately RM4.57 million or 29.2% of our trade receivables exceeded the normal credit period.

Up to and including the LPD, we have collected RM14.81 million of our total trade receivables of RM15.64 million as at 31 December 2018. Our Board is of the opinion that the remaining outstanding trade receivables are recoverable considering that our customers are of reputable standing and have insofar established long-term relationships with us. Additionally, these customers have not defaulted on payment as at the LPD.

We review trade receivables ageing on a monthly basis. For outstanding debts of more than 12 months, full impairment will be made in the financial statements. The impairment loss of trade receivables of RM0.03 million above was attributed to debt outstanding for more than 12 months.

**13. FINANCIAL INFORMATION****13.5.2 Trade payables**

A summary of our trade payables for the Period under Review is set out below:

	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>	<b>(RM '000)</b>
Trade payables denominated in:				
• RM	235	203	384	598
• USD	2,361	2,979	1,213	491
• EUR	200	370	445	254
• CNY	283	5	84	-
• SGD	48	22	2	7
<b>Total<sup>(1)</sup></b>	<b>3,127</b>	<b>3,579</b>	<b>2,128</b>	<b>1,350</b>
Cost of sales	38,816	42,431	43,297	47,600
Trade payables turnover (days) <sup>(2)</sup>	29	31	18	10

**Notes:**

- (1) Balances of trade payables as at the end of the respective financial years.
- (2) Trade payables over our cost of sales for the respective financial year multiplied by 365 days.

The credit period generally granted to us by our suppliers ranged between 30 days to 120 days. To maintain good relationships with our suppliers, we made payment to our suppliers as they fall due.

For FYE 2015 and FYE 2016, we recorded trade payables turnover period of approximately 29 days and approximately 31 days respectively, which were within the normal credit period granted by our suppliers. The trade payables turnover period for both FYE 2015 and FYE 2016 were maintained based on credit term with our suppliers.

For FYE 2017, we recorded trade payables turnover period of approximately 18 days. The decrease in the trade payables turnover period was due to the early settlement of invoices from our raw material suppliers starting first quarter of FYE 2017, as we are entitled to a discount from our raw material suppliers if the invoices are settled within 7 days (instead of the normal term of payment of 30 days).

For FYE 2018, we recorded trade payables turnover period of approximately 10 days. The further decrease in the trade payables turnover period was due to the early settlement of invoices from our raw material suppliers within 7 days for the financial year.

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

**13. FINANCIAL INFORMATION****Ageing analysis of trade payables as at 31 December 2018**

	Exceeding credit period				Total
	Within credit period	Not more than 30 days overdue	Between 31 to 90 days overdue	More than 90 days overdue	
Trade payables (RM '000)	1,044	224	82	-	1,350
% of trade payables	77.4	16.6	6.0	-	100.0
Subsequent payments up to and including the LPD (RM '000)	1,023	224	82	-	1,329
<b>Outstanding trade payables as at the LPD (RM '000)</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21</b>
% of trade payables, net of subsequent payments	100.0	-	-	-	100.0

As at 31 December 2018, our total trade payables stood at approximately RM1.35 million, with approximately RM0.31 million or 22.7% of our trade payables exceeded the normal credit period.

As at the LPD, approximately RM1.33 million of our trade payables which were outstanding as at 31 December 2018 have been paid.

**13.5.3 Inventories**

Our inventories mainly comprise raw materials such as tungsten carbide rods and target materials; consumable goods such as diamond grinding wheels and packaging materials, work-in-progress and finished goods such as cutting tools, taps, drills, indexables, pre-setters, rotating cutting tools and holding systems. We adopt the first-in, first-out method for physical inventory movement.

A summary of our inventories for the Period under Review is set out below:

	FYE 2015	FYE 2016	FYE 2017	FYE 2018
	(RM '000)	(RM '000)	(RM '000)	(RM '000)
<b>Inventories</b>				
• Finished goods <sup>(1)</sup>	14,660	14,456	14,187	17,331
• Raw materials <sup>(2)</sup>	4,177	3,259	4,443	5,192
• Work-in-progress <sup>(3)</sup>	988	1,293	1,111	848
• Consumable goods <sup>(4)</sup>	285	723	1,005	1,093
<b>Total</b>	<b>20,110</b>	<b>19,731</b>	<b>20,746</b>	<b>24,464</b>
Cost of sales	38,816	42,431	43,297	47,600
Inventories turnover period (days) <sup>(5)</sup>	189	170	175	188

**13. FINANCIAL INFORMATION**

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**Notes:**

- (1) For FYE 2015 to FYE 2017, there was a marginal decrease in finished goods inventory as our production was only sufficient to meet orders from customers. For FYE 2018, there was an increase in finished goods inventory which was in line with our strategy to improve stock availability.
- (2) We endeavour to maintain an average of 3 months' stock level for raw materials. Accordingly, the changes in raw materials inventory for the Period under Review is due to our purchases of raw materials for the respective financial years to support our manufacturing activities.
- (3) Work in progress comprises the sum of all costs that have been incurred in manufacturing products that are partially completed.
- (4) The increase in consumable goods was in line with our higher revenue, as we had to hold higher stocks of consumable goods such as packing materials and diamond grinding wheels to support our increased manufacturing activities.
- (5) Inventories over our cost of sales for the respective financial year multiplied by 365 days.

For the Period under Review, our inventory turnover period ranged from 170 days to 189 days. The nature of our business requires us to maintain adequate inventory level of our products to ensure timely delivery of our products. It is important for us to maintain full range of our products in our inventory so that we can fulfil urgent or large sales orders from our customers.

In addition, we have adopted an inventory practice to maintain an inventory level of certain specification of tungsten carbide rods for approximately 3 months to ensure we have adequate supply of raw materials for our manufacturing activities.

We review our slow-moving/obsolete inventories of more than 12 months by adopting a specific identification approach which requires our management to consider the frequency of demand of our inventories, based on feedback received by our sales and marketing personnel from our customers. For finished goods inventory which is slow-moving, we make a provision and write down such inventory to its realisable value as assessed by our management. As our management judgement and estimates are required, possible changes in these estimates could result in impairment to the inventories.

For the Period under Review, the aggregate provisions made for slow-moving inventory amounted to RM0.80 million.

We are of the opinion that there are no obsolete inventories as at the LPD, premised on the following:

- (i) the raw materials consist of components used for cutting tools. These components have an infinite shelf life as the material will not expire and become obsolete;
- (ii) the work-in-progress comprised of partially completed cutting tools which are available for next step of manufacturing process;
- (iii) the finished goods comprised of cutting tools which are readily available for sale; and
- (iv) there were no instances of damage to the inventory identified.



### 13. FINANCIAL INFORMATION

#### 13.5.4 Current ratio

A summary of our current ratios as at the end of the respective financial years for the Period under Review is set out below:

	As at 31 December			
	2015	2016	2017	2018
Current assets (RM '000)	44,276	52,040	52,916	56,935
Current liabilities (RM '000)	21,019	22,816	24,587	25,068
Current ratio (times) <sup>(1)</sup>	2.11	2.28	2.15	2.27

**Note:**

- (1) Current ratio is computed based on current assets over current liabilities as at the end of the respective financial years.

As at 31 December 2016, our current ratio was 2.28 times, this was 0.17 times higher than as at 31 December 2015. This was mainly due to improvement in our current asset position comprising mainly trade receivables and cash and bank balances which is in tandem with our revenue growth.

As at 31 December 2017, our current ratio was 2.15 times as compared to 2.28 times as at 31 December 2016. This was mainly due to increase in bank borrowings to finance purchase of machineries and equipment.

As at 31 December 2018, our current ratio was 2.27 times as compared to 2.15 times as at 31 December 2017. This was mainly due to increase in inventories, which is in tandem with our strategy to improve stock availability.

#### 13.5.5 Gearing ratio

We do not have any board policy for gearing ratio. A summary of our gearing ratios as at the end of the respective financial years for the Period under Review is set out below:

	As at 31 December			
	2015	2016	2017	2018
Total borrowings (RM '000)	27,822	21,993	22,684	39,508
Shareholders' equity (RM '000)	53,371	57,551	67,172	74,006
Gearing ratio <sup>(1)</sup> (times)	0.52	0.38	0.34	0.53

**Note:**

- (1) Gearing ratio is computed based on the total borrowings over shareholders' equity as at the end of the respective financial years.

Our borrowing mainly comprises term loans and finance lease liabilities to finance our machineries and equipment, and motor vehicles.

Our gearing ratio decreased from approximately 0.52 times as at 31 December 2015 to approximately 0.34 times as at 31 December 2017 mainly due to the following:

- (i) full repayment of certain bank borrowings, which was used to finance the purchase of 21 machineries and equipment, comprising 10 CNC universal grinding machines, 3 CNC cylindrical grinding machines, 6 filtration systems, 1 measuring equipment and 1 supporting equipment; and

### 13. FINANCIAL INFORMATION

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- (ii) increase in our shareholders' fund from RM53.37 million as at 31 December 2015 to RM67.17 million as at 31 December 2017.

Our gearing ratio increased from approximately 0.34 times as at 31 December 2017 to approximately 0.53 times as at 31 December 2018 mainly due to the following:

- (i) increase in bank borrowings, which were used to finance the purchase of 9 machineries and equipment (comprising 7 units of CNC universal grinding machines, 2 units of CNC cylindrical grinding machines) and to partially finance the Acquisition of Block C; and
- (ii) increase in our shareholders' fund from RM67.17 million as at 31 December 2017 to RM74.01 million as at 31 December 2018.

We have been funding our business operations through internally generated funds from our operations as well as credit terms extended by our suppliers and financial institutions. Our overall capital management objective is to optimise returns and benefits to stakeholders. In order to meet this objective, we strive to reduce the cost of capital while sustaining our business. As such, we maintain a relatively low gearing level.

#### 13.6 ORDER BOOK

We do not have any long-term contracts with our customers as our sales are made based on confirmed orders.

#### 13.7 TREND ANALYSIS

As at the LPD, having made reasonable inquiry, we have reasonable grounds to believe that our financial conditions and 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 positions and operations;
- (ii) material capital commitment for capital expenditure save as disclosed in Section 13.4.6 of this Prospectus;
- (iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group;
- (iv) known trends, demands, commitments, events or uncertainties that had resulted or that we reasonably expect to result in a material impact on our total revenue and/or profits save for the future plans and strategies in Section 7.12.1 of this Prospectus and the planned increase in production capacity following the utilisation of proceeds arising from the Public Issue as set out in Section 4.8.1 of this Prospectus;
- (v) 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; and
- (vi) 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.

## **13. FINANCIAL INFORMATION**

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### **13.8 DIVIDEND POLICY**

It is the intention of our Board to recommend and distribute a dividend of at least 30% of our annual audited PAT attributable to the shareholders of our Company. Any dividend declared will be subject to recommendation of our Board and any final dividends declared will be subject to the approval of our shareholders at our annual general meeting.

You should take note that this dividend policy merely describes our current intention and shall not constitute legally binding statements in respect of our future dividend distributions, which are subject to modification at our Board's absolute discretion.

As we are a holding company, our income and ability to pay dividends are dependent upon the dividends received from our Subsidiaries. Save and except for customary banking restrictive covenants which our Subsidiaries are subject to, there is no dividend restriction being imposed on our Subsidiaries currently. However, the payment of dividends by our Subsidiaries is dependent upon their respective financial condition, capital expenditure plans, business expansion plans, availability of distributable reserves and other factors.

Our Board may recommend or declare the actual dividends in respect of any particular financial year or period subject to the factors outlined below:

- (i) the level of our cash and retained earnings;
- (ii) our expected financial performance;
- (iii) our cash flows requirements for operations, financing commitments and capital expenditure;
- (iv) any restrictive covenants contained in our current and future financing arrangements;
- (v) any material impact of tax laws and regulatory requirements; and
- (vi) any other factors our Board considers relevant.

The level of dividends declared in the past should also not be treated as an indication of our future dividend payout. Please refer to Section 9.3.4 of this Prospectus on the risk that our dividend payment is not guaranteed.

14. **REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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3 May 2019

The Board of Directors  
**HPMT Holdings Berhad**  
5, Jalan Sungai Kayu Ara 32/39  
Taman Berjaya, Seksyen 32  
40460, Shah Alam  
Selangor Darul Ehsan, Malaysia

Baker Tilly Monteiro Heng PLT  
(LLP0019411-LCA)  
Chartered Accountants (AF 0117)  
Baker Tilly Tower  
Level 10, Tower 1, Avenue 5  
Bangsar South City  
59200 Kuala Lumpur, Malaysia

T : +603 2297 1000  
F : +603 2282 9980

info@bakertilly.my  
[www.bakertilly.my](http://www.bakertilly.my)

Dear Sirs,

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**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**

**REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 INCLUDED IN A PROSPECTUS**

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We have completed our assurance engagement to report on the compilation of the pro forma consolidated statements of financial position of HPMT Holdings Berhad ("HPMT" or "Company") and its subsidiaries, namely HPMT Industries Sdn. Bhd., Herroz Sdn. Bhd., Pentagon Coating Technologies Sdn. Bhd., MTC Tooling Systems Limited, HPMT (Shenzhen) Limited and HPMT Deutschland GmbH ("HPMT Group") for which the directors of HPMT are solely responsible. The pro forma consolidated statements of financial position consists of the pro forma consolidated statements of financial position as at 31 December 2018 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of HPMT have compiled the pro forma consolidated statements of financial position are as described in Note 2 to the pro forma consolidated statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

The pro forma consolidated statements of financial position of HPMT Group has been compiled by the directors of HPMT, for illustrative purposes only, for inclusion in the prospectus of HPMT ("Prospectus") in connection with the listing of and quotation for the entire enlarged issued share capital of HPMT on the Main Market of Bursa Malaysia Securities Berhad ("Listing"), after making certain assumptions and such adjustments to show the effects on the pro forma consolidated financial position of HPMT Group as at 31 December 2018 adjusted for the transactions as described in Note 2.7, the public issue and the utilisation of proceeds as described in Notes 1.2 and 3.2.2.

Baker Tilly Monteiro Heng PLT (LLP0019411-LCA) (AF 0117) was registered on 05.03.2019 and with effect from that date, Baker Tilly Monteiro Heng (AF 0117), a conventional partnership was converted to a limited liability partnership.

Baker Tilly Monteiro Heng PLT is a member of the Baker Tilly International network, the members of which are separate and independent legal entities.

#### 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**  
Reporting Accountants' Report on the Compilation of the  
Pro Forma Consolidated Statements of Financial Position  
as at 31 December 2018 Included in A Prospectus



As part of this process, information about HPMT Group's pro forma consolidated financial positions has been extracted by the directors of HPMT from the audited financial statements of HPMT and the audited financial statements of its subsidiaries as follows:

Company Name	Financial year ended ("FYE")
HPMT	31 December 2018
HPMT Industries Sdn. Bhd. ("HPMT Industries")	31 December 2018
Herroz Sdn. Bhd. ("Herroz")	31 December 2018
Pentagon Sdn. Bhd. ("Pentagon")	31 December 2018
MTC Tooling Systems Limited ("MTC Tooling")	31 December 2018
HPMT (Shenzhen) Limited ("HPMT Shenzhen")	31 December 2018
HPMT Deutschland GmbH ("HPMT GmbH")	31 December 2018

The audited financial statements of the subsidiaries for the FYE 31 December 2018 were reported by the auditors to their respective members without any modifications.

#### *Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position*

The directors of HPMT are responsible for compiling the pro forma consolidated statements of financial position based on the Applicable Criteria.

#### *Our Independence and Quality Control*

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

Our firm applies *International Standard on Quality Control 1 (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.

## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**  
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### *Reporting Accountants' Responsibilities*

Our responsibility is to express an opinion, on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, by the directors of HPMT based on the Applicable Criteria.

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 Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of HPMT have compiled, in all material respects, the pro forma consolidated statements of financial position based on the Applicable Criteria.

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 statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated statements of financial position.

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

A reasonable assurance engagement to report on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of HPMT in the compilation of the pro forma consolidated statements of financial position of HPMT Group provide a reasonable basis for presenting the significant effects directly attributable to Listing and the acquisition of subsidiaries as described in Notes 1 and 2.7.1 to the pro forma consolidated statements of financial position, and to obtain sufficient appropriate evidence about whether:

- (a) The pro forma consolidated statements of financial position of HPMT Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of HPMT for the FYE 31 December 2018 and the audited financial statements of its subsidiaries for the FYE 31 December 2018, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the subsidiaries in the preparation of its audited financial statements for the FYE 31 December 2018 and the adoption of the new accounting policies as described in Note 2.6 to the pro forma consolidated statements of financial position; and
- (b) Each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

**14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**  
Reporting Accountants' Report on the Compilation of the  
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as at 31 December 2018 Included in A Prospectus



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

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

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

*Our opinion*

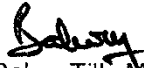
In our opinion:

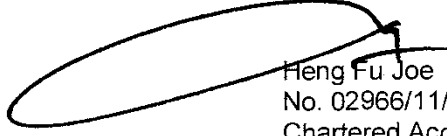
- (a) the pro forma consolidated statements of financial position of HPMT Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of HPMT for the FYE 31 December 2018 and the audited financial statements of its subsidiaries for the FYE 31 December 2018 and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the subsidiaries in the preparation of its audited financial statements for the FYE 31 December 2018, which had been adopted by HPMT as its group's accounting policies and the adoption of the new accounting policies as described in Note 2.6 to the pro forma consolidated statements of financial position; and
- (b) each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position of HPMT Group is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

**Other matter**

This report has been prepared for inclusion in the Prospectus of HPMT in connection with Listing. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

  
Baker Tilly Monteiro Heng PLT  
LLP0019411-LCA & AF 0117  
Chartered Accountants

  
Heng Fu Joe  
No. 02966/11/2020 J  
Chartered Accountant

**14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**

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**PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**1. INTRODUCTION**

The pro forma consolidated statements of financial position of HPMT Holdings Berhad ("HPMT" or "Company") and its subsidiaries (hereinafter collectively referred to as the "HPMT Group") has been compiled by the directors of HPMT, for illustrative purposes only, for inclusion in the prospectus of HPMT in connection with the listing of and quotation for the entire enlarged issued share capital of HPMT on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing").

1.1 HPMT is undertaking a listing of and quotation for its entire enlarged issued share capital on the Main Market of Bursa Securities. The Listing comprises the following:

**1.2 Public Issue**

The public issue of 75,553,000 new ordinary shares in HPMT ("Shares"), at the initial public offering ("IPO") price of RM0.56 for per Share, representing approximately 23.0% of the enlarged number of shares of HPMT, to be allotted in the following manner:

- (i) 16,426,000 new Shares available to the Malaysian public;
- (ii) 8,300,000 new Shares available for application by the eligible directors and employees of HPMT Group who have contributed to the success of HPMT Group; and
- (iii) 50,827,000 new Shares by way of private placement to institutional and selected investors.

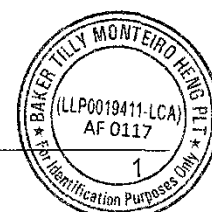
(Collectively hereinafter referred to as "Public Issue").

**1.3 Offer for sale**

Offer for sale of 41,062,000 existing Shares at the IPO price of RM0.56 per Share representing 12.5% of the enlarged number of Shares of HPMT by way of placement to selected Bumiputera investors approved by the Ministry of International Trade and Industry and institutional and selected investors.

**1.4 Listing**

Admission to the official list and the listing of and quotation for the entire enlarged issued share capital of HPMT of RM105,543,682 comprising 328,489,000 Shares on the Main Market of Bursa Securities.





#### 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

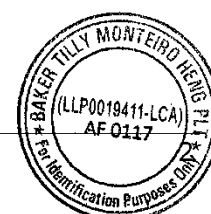
##### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

- 2.1 The pro forma consolidated statements of financial position have been prepared to illustrate the pro forma consolidated financial position of HPMT Group as at 31 December 2018, adjusted for the transactions as described in Note 2.7, the Public Issue and the utilisation of proceeds as described in Notes 1.2 and 3.2.2 respectively.
- 2.2 The pro forma consolidated statements of financial position have been prepared based on the following audited financial statements for the financial year ended 31 December ("FYE") 2018 of the subsidiaries adjusted for the transactions as described in Note 2.7:

Company Name	FYE
HPMT	2018
HPMT Industries Sdn. Bhd. ("HPMT Industries")	2018
Herroz Sdn. Bhd. ("Herroz")	2018
Pentagon Sdn. Bhd. ("Pentagon")	2018
MTC Tooling Systems Limited ("MTC Tooling")	2018
HPMT (Shenzhen) Limited ("HPMT Shenzhen")	2018
HPMT Deutschland GmbH ("HPMT GmbH")	2018

- 2.3 The audited financial statements of HPMT and each of its subsidiaries for the financial year under review were reported by the auditors to their respective members without any modifications.
- 2.4 The pro forma consolidated statements of financial position of HPMT Group have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of HPMT Group and does not purport to predict the future financial position and results of HPMT Group.
- 2.5 The pro forma consolidated statements of financial position of HPMT Group have been properly prepared on the basis set out in the accompanying notes to the pro forma consolidated statements of financial position based on the audited financial statements of HPMT for FYE 2018 and audited financial statements of each of the subsidiaries for FYE 2018, which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.



## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

- 2.6 The pro forma consolidated statements of financial position of HPMT Group have been prepared in a manner consistent with both the format of the audited financial statements and accounting policies adopted by the subsidiaries in the preparation of its audited financial statements for the FYE 2018 and the adoption of the following new accounting policies, which had been adopted by HPMT Group as the group's accounting policies.

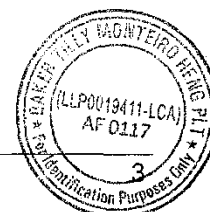
##### **Merger accounting**

The subsidiaries are accounted for using the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Subsidiaries acquired which have met the criteria for pooling-of-interests are accounted for using merger accounting principles. Under the merger method of accounting, the results of the subsidiaries are presented as if the business combination had been effected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the subsidiaries is taken to merger reserve or merger deficit.

Acquisition of entities under common control does not result in any change in economic substance. Accordingly, HPMT Group is a continuation of the acquired entity and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the combined financial statements at the pre-combination carrying amounts;
  - the retained earnings and other equity balances of acquired entity immediately before the business combination are those of HPMT Group; and
  - the equity structure, however, reflects the equity structure of HPMT Group and the difference arising from the change in equity structure of HPMT Group will be accounted for in merger reserve/deficit.
- 2.7 In connection with the Listing, the pro forma consolidated statements of financial position has been presented after adjusting for the following material transactions subsequent to 31 December 2018 but before the Public Issue as described in Note 1.2.



## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

##### 2.7.1 Acquisition of subsidiaries (the "Acquisitions")

##### 2.7.1.1 Acquisition of HPMT Industries and Herroz

HPMT had on 25 May 2018, entered into a conditional share sale agreement with Mec. Tech Corporation Sdn. Bhd. ("Mec. Tech") to:

- (i) acquire the entire issued share capital of HPMT Industries of RM2,500,000 comprising 2,500,000 ordinary shares in HPMT Industries for a purchase consideration of RM51,563,000. The Acquisition of HPMT Industries is to be wholly satisfied by the issuance of 206,251,998 new Shares at an issue price of RM0.25 per Share to Herroz Mechanical Technologies Sdn. Bhd. ("Herroz Mechanical"), the holding company of Mec. Tech.

The purchase consideration of HPMT Industries of RM51,563,000 was arrived at on a willing-buyer willing-seller basis, after taking into consideration the adjusted audited net assets ("NA") of HPMT Industries as at 31 December 2017 of RM51,562,138 as follows:

	<b>RM</b>
Audited NA as at 31 December 2017	57,562,138
Less: Payment of dividend to shareholders of HPMT Industries on 31 March 2018	(6,000,000)
<b>Adjusted NA as at 31 December 2017</b>	<b>51,562,138</b>

- (ii) acquire the entire issued share capital of Herroz of RM1,626,518 comprising 1,626,518 ordinary shares in Herroz for a purchase consideration of RM4,828,000. The Acquisition of Herroz is to be wholly satisfied by the issuance of 19,312,000 new Shares at an issue price of RM0.25 per Share to Herroz Mechanical, the holding company of Mec. Tech.

The purchase consideration of Herroz of RM4,828,000 was arrived at on a willing-buyer willing-seller basis, after taking into consideration the audited NA of Herroz as at 31 December 2017 of RM4,827,494.

The Acquisition of HPMT Industries and Herroz was completed on 29 March 2019.



## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

##### 2.7.1 Acquisition of subsidiaries (Continued)

##### 2.7.1.2 Acquisition of Pentagon

HPMT had on 25 May 2018, entered into a conditional share sale agreement with Herroz Mechanical, to acquire 75% equity interest in Pentagon for a purchase consideration of RM801,000. The Acquisition of Pentagon is to be wholly satisfied by the issuance of 3,204,000 new Shares at an issue price of RM0.25 per Share.

The purchase consideration of Pentagon of RM801,000 was arrived at on a willing-buyer willing-seller basis, after taking into consideration the adjusted NA of Pentagon as at 31 December 2017 of RM1,067,345 as follows:

	RM
Audited NA as at 31 December 2017	67,345
Add: Additional equity injection on 28 February 2018	1,000,000
<b>Adjusted NA as at 31 December 2017</b>	<b>1,067,345</b>

The Acquisition of Pentagon was completed on 29 March 2019.

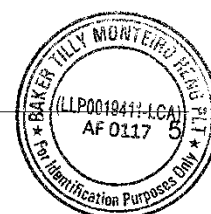
##### 2.7.1.3 Acquisition of MTC Tooling

HPMT had on 25 May 2018, entered into a conditional share sale agreement with Mec. Tech and Yoong Kam Sing, to acquire the entire issued share capital of MTC Tooling of HKD1,000,000 comprising 1,000,000 ordinary shares in MTC Tooling for a purchase consideration of HKD7,402,244 or equivalent to RM3,834,000 (HKD100: RM51.7951). The Acquisition of MTC Tooling is to be wholly satisfied by the issuance of 15,336,000 new Shares at an issue price of RM0.25 per Share.

The purchase consideration of MTC Tooling of HKD7,402,244 was arrived at on a willing-buyer willing-seller basis, after taking into consideration the adjusted pro forma unaudited NA of MTC Tooling's group of companies as at 31 December 2017 of HKD7,400,526 as follows:

	HKD
Pro forma unaudited NA of MTC Tooling Group as at 31 December 2017	6,950,706
Less: Loss on disposal of 100% equity interest in MTC (Guangzhou) Tooling Systems Ltd	(72,882)
Add: Gain on disposal arising from the disposal of 2 office units located at Fook Hong Industrial Building, Kowloon Bay, Hong Kong	6,522,702
Less: Dividends paid to shareholders on 17 May 2018	(6,000,000)
<b>Adjusted pro forma unaudited NA as at 31 December 2017</b>	<b>7,400,526</b>

The Acquisition of MTC Tooling was completed on 20 March 2019.



**14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**

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**2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

**2.7.1 Acquisition of subsidiaries (Continued)**

**2.7.1.4 Acquisition of HPMT GmbH**

HPMT had on 25 May 2018, entered into a conditional share sale agreement with Mec. Tech, to acquire the entire issued share capital of HPMT GmbH of EUR25,000 comprising 3 ordinary shares in HPMT GmbH for a purchase consideration of approximately EUR455,822 or equivalent to RM2,208,000 (EUR1: RM4.8440). The Acquisition of HPMT GmbH is to be wholly satisfied by the issuance of 8,832,000 new Shares at an issue price of RM0.25 per Share.

The purchase consideration of HPMT GmbH of EUR455,822 was arrived at on a willing-buyer willing-seller basis, after taking into consideration the audited NA of HPMT GmbH as at 31 December 2017 of EUR455,791.

The Acquisition of HPMT GmbH was completed on 29 March 2019.



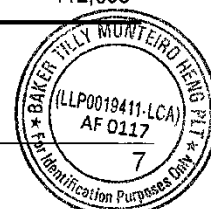
## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP

- 3.1 The pro forma consolidated statements of financial position of HPMT Group as set out below, for which the directors of HPMT Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited statement of financial position of HPMT Group as at 31 December 2018, had the transactions as described in Note 2.7, the Public Issue as described in Notes 1.2 and the utilisation of proceeds as described in Notes 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Audited statement of financial position as at 31 December 2018 RM'000	Pro Forma I After the Acquisitions RM'000	Pro Forma II After Pro Forma I and the Public Issue RM'000	Pro Forma III After Pro Forma II and the utilisation of proceeds RM'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	-	77,008	77,008	111,008
Deferred tax assets	-	10	10	10
<b>Total non-current assets</b>	<b>-</b>	<b>77,018</b>	<b>77,018</b>	<b>111,018</b>
<b>Current assets</b>				
Inventories	-	24,464	24,464	25,464
Current tax assets	-	2,259	2,259	2,259
Trade and other receivables	498	16,977	16,977	16,479
Cash and short-term deposits	20	13,235	55,545	17,723
<b>Total current assets</b>	<b>518</b>	<b>56,935</b>	<b>99,245</b>	<b>61,925</b>
<b>TOTAL ASSETS</b>	<b>518</b>	<b>133,953</b>	<b>176,263</b>	<b>172,943</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of HPMT</b>				
Share capital	*	63,234	105,544	104,302
Merger deficit	-	(57,403)	(57,403)	(57,403)
Exchange reserve	-	692	692	692
Statutory reserve	-	54	54	54
(Accumulated losses)/ Retained earnings	(2,330)	66,997	66,997	64,919
	(2,330)	73,574	115,884	112,564
<b>Non-controlling interests</b>	<b>-</b>	<b>432</b>	<b>432</b>	<b>432</b>
<b>Total equity</b>	<b>(2,330)</b>	<b>74,006</b>	<b>116,316</b>	<b>112,996</b>



**14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**
**3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP (CONTINUED)**

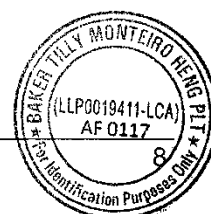
3.1 (Continued)

	Audited statement of financial position as at 31 December 2018 RM'000	Pro Forma I  After the Acquisitions RM'000	Pro Forma II  After Pro Forma I and the Public Issue RM'000	Pro forma III  After Pro Forma II and the utilisation of proceeds RM'000
<b>Non-current liabilities</b>				
Loans and borrowings	-	25,894	25,894	25,894
Deferred income	-	4,297	4,297	4,297
Deferred tax liabilities	-	4,688	4,688	4,688
<b>Total non-current liabilities</b>	-	34,879	34,879	34,879
<b>Current liabilities</b>				
Loans and borrowings	-	13,614	13,614	13,614
Deferred income	-	770	770	770
Current tax liabilities	-	232	232	232
Trade and other payables	2,848	10,452	10,452	10,452
<b>Total current liabilities</b>	2,848	25,068	25,068	25,068
<b>Total liabilities</b>	2,848	59,947	59,947	59,947
<b>TOTAL EQUITY AND LIABILITIES</b>	518	133,953	176,263	172,943
Number of shares in issue / assumed to be in issue ('000)	@	252,936	328,489	328,489

(Net liabilities) ("NL")/ Net assets ("NA")^ (RM'000)	(2,330)	73,574	115,884	112,564
(NL)/NA per share (RM)	(1,165,000)	0.29	0.35	0.34
^ attributable to owners of HPMT				

\* RM2

@ 2 Shares



## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP (CONTINUED)

3.2 Notes to the pro forma consolidated statements of financial position are as follows:

3.2.1 The pro forma consolidated statements of financial position of HPMT Group, for which the directors of HPMT Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited statement of financial position of HPMT Group as at 31 December 2018, had the transactions as described in Note 2.7, the Public Issue as described in Notes 1.2 and the utilisation of proceeds as described in Notes 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

3.2.2 The proceeds from the Public Issue would be utilised in the following manner:

	RM'000	%
Purchase of machineries and equipment	34,000	80.3
Working capital:		
- Finished good inventories	1,000	2.4
- Staff costs and raw materials	1,910	4.5
Estimated listing expenses	5,400	12.8
	42,310	100.0

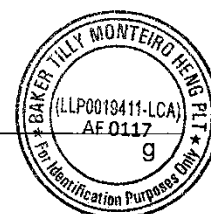
3.2.3 The pro forma consolidated statements of financial position should be read in conjunction with the notes below:

(a) **Pro Forma I**

Pro Forma I incorporates the effects of the Acquisitions as described in Note 2.7.1 on the audited statements of financial position of HPMT as at 31 December 2018.

The merger deficit arising from the Acquisitions are as below:

	RM'000
Purchase consideration	63,234
Less: Share capital of subsidiaries	(5,831)
Merger deficit	57,403





## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP (CONTINUED)

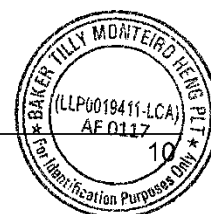
3.2 (Continued)

3.2.3 (Continued)

##### (a) Pro Forma I (Continued)

The Acquisitions had the following impact on the audited statement of financial position of HPMT as at 31 December 2018:

	Increase/(Decrease)	
	Effects on	Effects on
	Total Assets	Total Liabilities
	RM'000	and Equity
		RM'000
Property, plant and equipment	77,008	-
Deferred tax assets	10	-
Inventories	24,464	-
Current tax assets	2,259	-
Trade and other receivables	16,479	-
Cash and short-term deposits	13,215	-
Share capital	-	63,234
Exchange reserve	-	692
Statutory reserve	-	54
Merger deficit	-	(57,403)
Retained earnings	-	69,327
Non-controlling interest	-	432
Deferred tax liabilities	-	4,688
Deferred income		
- non-current	-	4,297
- current	-	770
Loans and borrowings		
- non-current	-	25,894
- current	-	13,614
Trade and other payables	-	7,604
Current tax liabilities	-	232
	133,435	133,435



## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

##### (b) Pro Forma II

Pro Forma II incorporates the cumulative effects of Pro Forma I and the Public Issue as described in Note 1.2.

The Public Issue will have the following impact on the pro forma consolidated statements of financial position of HPMT Group as at 31 December 2018:

	<b>Increase/(Decrease)</b>	
	<b>Effects on</b>	<b>Effects on</b>
	<b>Total Assets</b>	<b>Total Equity</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term deposits	42,310	-
Share capital	-	42,310
	42,310	42,310

##### (c) Pro Forma III

Pro Forma III incorporates the cumulative effects of Pro Forma II and the utilisation of proceeds from the Public Issue of RM42.3 million after netting off RM5.4 million of estimated expenses.

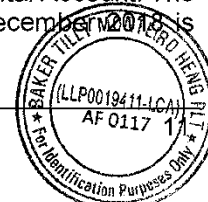
The remaining proceeds expected from the Public Issue of RM36.9 million will be utilised in the manner as described in Note 3.2.2 to the pro forma consolidated statements of financial position.

The proceeds arising from the Public Issue earmarked for purchase of machineries and equipment totalling RM34.0 million is assumed to meet the criteria of capitalisation as property, plant and equipment and therefore will be debited to the Property, Plant and Equipment Account.

The proceeds arising from the Public Issue earmarked for HPMT Group's inventory capital purposes of RM1.0 million will be included in the Inventories Account.

The proceeds arising from the Public Issue earmarked for HPMT Group's staff costs and raw materials purposes of RM1.9 million will be included in the Cash and Short-term Deposits Account.

As at 31 December 2018, RM2.6 million of the estimated listing expenses has been incurred of which RM0.5 million has been recognised as prepayment and the balance of RM2.1 million has been charged to profit or loss. The remaining estimated listing expenses of RM2.8 million of which RM2.1 million will be included in Retained Earnings Account while RM0.7 million will be included in Share Capital Account. The RM0.5 million which was recognised as prepayment as at 31 December 2018 is reclassified to Share Capital Account.



#### 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

##### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### 3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

##### (c) Pro Forma III (Continued)

The utilisation of proceeds will have the following impact on the pro forma consolidated statements of financial position of HPMT Group as at 31 December 2018:

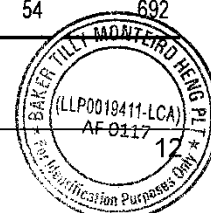
	Increase/(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Property, plant and equipment	34,000	-
Finished good inventories	1,000	-
Cash and short-term deposits	(37,822)	-
Trade and other receivables	(498)	-
Share capital	-	(1,242)
Retained earnings	-	(2,078)
	<u>(3,320)</u>	<u>(3,320)</u>

3.2.4 Movements in share capital and reserves are as follows:

	Share capital RM'000	Merger deficit RM'000	(Accumulated losses)/ Retained earnings RM'000	Non- controlling interests RM'000	Statutory reserve RM'000	Exchange reserve RM'000
Audited statement of financial position of HPMT as at 31 December 2018	&	-	(2,330)	-	-	-
Arising from the Acquisitions	63,234	(57,403)	69,327	432	54	692
Per Pro Forma I	63,234	(57,403)	66,997	432	54	692
Arising from the Public Issue	42,310	-	-	-	-	-
Per Pro Forma II	105,544	(57,403)	66,997	432	54	692
Arising from the defrayment of remaining estimated listing expenses in relation to the Listing	(1,242)	-	(2,078)	-	-	-
Per Pro Forma III	<u>104,302</u>	<u>(57,403)</u>	<u>64,919</u>	<u>432</u>	<u>54</u>	<u>692</u>

& RM2

Pro Forma Consolidated Statements of Financial Position



## 14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES

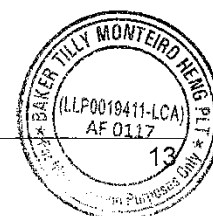
#### 3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HPMT GROUP (CONTINUED)

3.2 (Continued)

3.2.5 Movements in cash and short-term deposits are as follows:

	RM'000
Audited statement of financial position of HPMT as at 31 December 2018	20
Arising from the Acquisitions	13,215
Per Pro Forma I	13,235
Arising from the Public Issue	42,310
Per Pro Forma II *	55,545
Arising from the utilisation of proceeds:	
- purchase of machineries and equipment	(34,000)
- inventories	(1,000)
- defrayment of remaining estimated listing expenses in relation to the Listing	(2,822)
Per Pro Forma III *	17,723

\* Included in the cash and short-term deposits is an amount of RM1.9 million arising from the Public Issue earmarked for staff costs and raw materials purposes.



**14. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

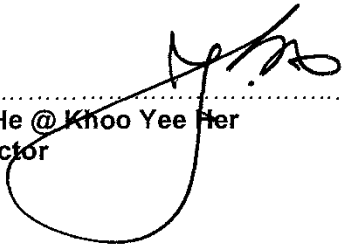
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**HPMT HOLDINGS BERHAD AND ITS SUBSIDIARIES**

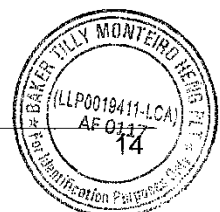
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**APPROVAL BY BOARD OF DIRECTORS**

Approved and adopted by the Board of Directors of HPMT Holdings Berhad in accordance with a resolution dated 3 May 2019.

  
.....  
Ku He @ Khoo Yee Her  
Director

  
.....  
Tan Kim Chuan  
Director



## 15. ACCOUNTANTS' REPORT

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3 May 2019

The Board of Directors  
**HPMT Holdings Berhad**  
5, Jalan Sungai Kayu Ara 32/39  
Taman Berjaya, Seksyen 32  
40460 Shah Alam  
Selangor Darul Ehsan, Malaysia

Baker Tilly Monteiro Heng PLT  
(LLP0019411-LCA)  
Chartered Accountants (AF 0117)  
Baker Tilly Tower  
Level 10, Tower 1, Avenue 5  
Bangsar South City  
59200 Kuala Lumpur, Malaysia

T : +603 2297 1000  
F : +603 2282 9980

info@bakertilly.my  
[www.bakertilly.my](http://www.bakertilly.my)

Dear Sirs,

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### **Reporting Accountants' opinion on the Combined Financial Statements contained in the Accountants' Report of HPMT Holdings Berhad**

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#### **Opinion**

We have audited the accompanying combined financial statements of the HPMT Holdings Berhad as defined in Note 2 to the combined financial statements (the "Group"), which comprise of the combined statements of financial position of the Group as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years then ended and notes to the combined financial statements, including a summary of significant accounting policies, as set out on pages 2 to 103.

In our opinion, the accompanying combined financial statements contained in the Accountants' Report of HPMT Holdings Berhad gives a true and fair view of the combined financial positions of the Group as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 and of their financial performance and their cash flows for the financial years then ended in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### **Basis for Opinion**

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

Baker Tilly Monteiro Heng PLT (LLP0019411-LCA) (AF 0117) was registered on 05.03.2019 and with effect from that date, Baker Tilly Monteiro Heng (AF 0117), a conventional partnership was converted to a limited liability partnership.

Baker Tilly Monteiro Heng PLT is a member of the Baker Tilly International network, the members of which are separate and independent legal entities.

**15. ACCOUNTANTS' REPORT**

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

**Responsibilities of the Directors for the Combined Financial Statements**

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

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

The directors of HPMT Holdings Berhad are responsible for overseeing the Group's financial reporting process.

**Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements**

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

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

- identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Reporting Accountants' report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

15. ACCOUNTANTS' REPORT

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

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

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

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

**Other Matters**

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

A handwritten signature in black ink, appearing to read "Baker Tilly Monteiro Heng".

Baker Tilly Monteiro Heng PLT  
LLP0019411-LCA & AF 0117  
Chartered Accountants

A large, stylized handwritten signature in black ink, appearing to read "Heng Fu Joe".

Heng Fu Joe  
No. 02966/11/2020 J  
Chartered Accountant

Kuala Lumpur

Date: 3 May 2019



**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**

Accountants' Report

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**STATEMENT BY DIRECTORS**

We, **KU HE @ KHOO YEE HER** and **TAN KIM CHUAN**, being two of the directors of HPMT HOLDINGS BERHAD, do hereby state that in the opinion of the directors, the accompanying combined financial statements set out on pages 2 to 103 are drawn up in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial positions of the Group, as defined in Note 2, as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 and of its financial performance and cash flows for the financial years then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

  
.....  
**KU HE @ KHOO YEE HER**  
Director

  
.....  
**TAN KIM CHUAN**  
Director

Shah Alam

Date: 3 May 2019

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**COMBINED STATEMENTS OF FINANCIAL POSITION**

	Note	← As at 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	43,371	43,852	50,234	77,008
Deferred tax assets	6	1	1	131	10
Other investment	7	8,229	5,364	8,995	-
<b>Total non-current assets</b>		<b>51,601</b>	<b>49,217</b>	<b>59,360</b>	<b>77,018</b>
<b>Current assets</b>					
Inventories	8	20,110	19,731	20,746	24,464
Current tax assets		145	664	302	2,259
Trade and other receivables	9	15,735	21,091	18,960	16,977
Cash and short-term deposits	10	8,286	10,554	12,908	13,235
<b>Total current assets</b>		<b>44,276</b>	<b>52,040</b>	<b>52,916</b>	<b>56,935</b>
Non-current assets held for sale	11	-	-	1,171	-
Assets of a disposal group classified as held for sale	12	-	-	43	-
<b>TOTAL ASSETS</b>		<b>95,877</b>	<b>101,257</b>	<b>113,490</b>	<b>133,953</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the Group</b>					
Invested equity	13	4,706	4,706	5,206	6,206
Other reserves	14	341	(4)	(108)	527
Retained earnings		45,818	50,119	59,422	64,026
		50,865	54,821	64,520	70,759
<b>Non-controlling interests</b>		<b>2,506</b>	<b>2,730</b>	<b>2,652</b>	<b>3,247</b>
<b>TOTAL EQUITY</b>		<b>53,371</b>	<b>57,551</b>	<b>67,172</b>	<b>74,006</b>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**

	Note	← As at 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Non-current liabilities</b>					
Loans and borrowings	15	15,211	12,564	12,225	25,894
Deferred income	16	2,833	4,132	5,067	4,297
Deferred tax liabilities	6	2,889	3,616	3,916	4,688
Trade and other payables	17	554	578	517	-
<b>Total non-current liabilities</b>		<b>21,487</b>	<b>20,890</b>	<b>21,725</b>	<b>34,879</b>
<b>Current liabilities</b>					
Loans and borrowings	15	12,611	9,429	10,459	13,614
Deferred income	16	372	581	770	770
Current tax liabilities		144	91	210	232
Trade and other payables	17	7,892	12,715	13,148	10,452
<b>Total current liabilities</b>		<b>21,019</b>	<b>22,816</b>	<b>24,587</b>	<b>25,068</b>
Liabilities of a disposal group classified as held for sale	12	-	-	6	-
<b>TOTAL LIABILITIES</b>		<b>42,506</b>	<b>43,706</b>	<b>46,318</b>	<b>59,947</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>95,877</b>	<b>101,257</b>	<b>113,490</b>	<b>133,953</b>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

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

	Note	← FYE 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Continuing operations</b>					
Revenue	18	68,876	75,162	85,152	85,296
Cost of sales		(38,816)	(42,431)	(43,297)	(47,600)
<b>Gross profit</b>		<b>30,060</b>	<b>32,731</b>	<b>41,855</b>	<b>37,696</b>
Other income	19	1,127	2,406	1,145	4,880
Administrative expenses		(11,103)	(12,216)	(16,904)	(19,612)
Net impairment losses of financial assets		(2)	(25)	(91)	-
Distribution expenses		(4,587)	(5,159)	(6,630)	(6,247)
<b>Operating profit</b>		<b>15,495</b>	<b>17,737</b>	<b>19,375</b>	<b>16,717</b>
Finance costs	20	(1,126)	(1,120)	(910)	(1,038)
<b>Profit before tax</b>	21	<b>14,369</b>	<b>16,617</b>	<b>18,465</b>	<b>15,679</b>
Income tax expense	23	(2,981)	(3,484)	(3,575)	(1,927)
<b>Profit for the financial years from continuing operations</b>		<b>11,388</b>	<b>13,133</b>	<b>14,890</b>	<b>13,752</b>
Loss for the financial years from discontinued operation, net of tax	12	(27)	(2)	*	-
<b>Profit for the financial years</b>		<b>11,361</b>	<b>13,131</b>	<b>14,890</b>	<b>13,752</b>
<b>Other comprehensive income/ (loss), net of tax</b>	24				
<i>Item that may be reclassified subsequently to profit or loss</i>					
Exchange differences on translation of foreign operations		485	(701)	(269)	1,172
<b>Other comprehensive income/ (loss) for the financial years</b>		<b>485</b>	<b>(701)</b>	<b>(269)</b>	<b>1,172</b>
<b>Total comprehensive income for the financial years</b>		<b>11,846</b>	<b>12,430</b>	<b>14,621</b>	<b>14,924</b>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
(CONTINUED)**

	← FYE 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Profit/(loss) attributable to:</b>				
Owners of the Group	10,621	12,564	14,837	12,214
- From continuing operations	10,648	12,566	14,837	12,214
- From discontinued operation	(27)	(2)	*	-
Non-controlling interests	740	567	53	1,538
	<b>11,361</b>	<b>13,131</b>	<b>14,890</b>	<b>13,752</b>
<b>Total comprehensive income/ (loss) attributable to:</b>				
Owners of the Group	10,868	12,206	14,699	12,815
- From continuing operations	10,895	12,208	14,699	12,815
- From discontinued operation	(27)	(2)	*	-
Non-controlling interests	978	224	(78)	2,109
	<b>11,846</b>	<b>12,430</b>	<b>14,621</b>	<b>14,924</b>

\* (RM376)

## 15. ACCOUNTANTS' REPORT

HPMT HOLDINGS BERHAD  
Accountants' Report

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to the owners of Group					Non-controlling interests RM'000	Total equity RM'000
		Invested equity RM'000	Exchange reserve RM'000	PRC statutory reserve RM'000	Retained earnings RM'000	Sub-total RM'000		
<b>As at 1 January 2015</b>		4,706	-	59	38,806	43,571	1,528	45,099
<b>Total comprehensive income for the financial year</b>		-	-	-	10,621	10,621	740	11,361
Profit for the financial year		-	247	-	-	247	238	485
Other comprehensive income for the financial year		-	-	35	(35)	-	-	-
Appropriation to statutory reserve		-	-	-	-	-	-	-
Total comprehensive income		-	247	35	10,586	10,868	978	11,846
<b>Transaction with owners</b>	<b>25</b>	-	-	-	(3,574)	(3,574)	-	(3,574)
Dividends paid on shares		-	-	-	-	-	-	-
<b>At 31 December 2015</b>		4,706	247	94	45,818	50,865	2,506	53,371

## 15. ACCOUNTANTS' REPORT

**HPMT HOLDINGS BERHAD**  
 Accountants' Report

**COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)**

	Invested equity RM'000	Attributable to the owners of Group				Sub-total RM'000	Non- controlling interests RM'000	Total equity RM'000
		Exchange reserve RM'000	PRC statutory reserve RM'000	Retained earnings RM'000	→			
<b>At 1 January 2016</b>	4,706	247	94	45,818	50,865	2,506	53,371	
Total comprehensive income for the financial year	-	-	-	12,564	12,564	567	13,131	
Profit for the financial year	-	(358)	-	-	(358)	(343)	(701)	
Other comprehensive loss for the financial year	-	-	13	(13)	-	-	-	
Appropriation to statutory reserve	-	(358)	13	12,551	12,206	224	12,430	
<b>Transaction with owners</b>	-	-	-	(8,250)	(8,250)	-	(8,250)	
Dividends paid on shares	4,706	(111)	107	50,119	54,821	2,730	57,551	
<b>At 31 December 2016</b>								

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## 15. ACCOUNTANTS' REPORT

**HPMT HOLDINGS BERHAD**  
 Accountants' Report

**COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)**

	← Attributable to the owners of Group →					Non- controlling interests RM'000	Total equity RM'000
	Invested equity RM'000	Exchange reserve RM'000	PRC statutory reserve RM'000	Retained earnings RM'000	Sub-total RM'000		
<b>At 1 January 2017</b>	4,706	(111)	107	50,119	54,821	2,730	57,551
<b>Total comprehensive income for the financial year</b>	-	-	-	14,837	14,837	53	14,890
Profit for the financial year	-	(138)	-	-	(138)	(131)	(269)
Other comprehensive loss for the financial year	-	-	34	(34)	-	-	-
Appropriation to statutory reserve	-	(138)	34	14,803	14,699	(78)	14,621
<b>Total comprehensive (loss)/income</b>	-	(138)	34	14,803	14,699	(78)	14,621
<b>Transaction with owners</b>							
Issuance of shares	500	-	-	-	500	-	500
Dividends paid on shares	-	-	-	(5,500)	(5,500)	-	(5,500)
<b>At 31 December 2017</b>	5,206	(249)	141	59,422	64,520	2,652	67,172

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## 15. ACCOUNTANTS' REPORT

HPMT HOLDINGS BERHAD  
Accountants' Report

## COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Invested equity RM'000	Attributable to the owners of Group				Sub-total RM'000	Non-controlling interests RM'000	Total equity RM'000
		Exchange reserve RM'000	PRC statutory reserve RM'000	Retained earnings RM'000				
<b>At 1 January 2018</b>	5,206	(249)	141	59,422	64,520	2,652	67,172	
<b>Total comprehensive income for the financial year</b>	-	-	-	12,214	12,214	1,538	13,752	
Profit for the financial year	-	601	-	-	601	571	1,172	
Other comprehensive income for the financial year	-	-	34	(34)	-	-	-	
Appropriation to statutory reserve	-	601	34	12,180	12,815	2,109	14,924	
<b>Transaction with owners</b>								
Issuance of shares	1,000	-	-	-	1,000	-	1,000	
Dividends paid on shares	-	-	-	(7,576)	(7,576)	(1,514)	(9,090)	
<b>At 31 December 2018</b>	6,206	352	175	64,026	70,759	3,247	74,006	

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**COMBINED STATEMENTS OF CASH FLOWS**

	← FYE 31 December →			
	2015	2016	2017	2018
Note	RM'000	RM'000	RM'000	RM'000
<b>Cash flows from operating activities</b>				
Profit/(loss) before tax				
- Continuing operations	14,369	16,617	18,465	15,679
- Discontinued operation	(27)	(2)	*	-
	14,342	16,615	18,465	15,679
Adjustments for:				
Depreciation of property, plant and equipment	4,950	5,966	6,658	7,864
Gain on disposal of property, plant and equipment/ non-current asset held for sale	(52)	(50)	(19)	(3,364)
Property, plant and equipment written off	-	-	2	-
Impairment loss on trade receivables	2	25	91	-
Inventories written down	174	50	263	310
Reversal of inventories written down	-	-	(156)	-
Finance costs	1,126	1,120	910	1,038
Interest income	(258)	(161)	(308)	(436)
Net unrealised foreign exchange loss/(gain)	733	(84)	443	(310)
	<b>21,017</b>	<b>23,481</b>	<b>26,349</b>	<b>20,781</b>
<b>Operating profit before working capital changes</b>				
<u>Changes in working capital:</u>				
Inventories	(2,840)	136	(1,370)	(3,718)
Trade and other receivables	(6,204)	(4,471)	226	2,220
Trade and other payables	1,315	3,561	(822)	(3,943)
	13,288	22,707	24,383	15,340
Net cash flows generated from operations				
Income tax paid	(2,990)	(3,337)	(3,045)	(2,970)
Interests paid	(37)	(25)	(25)	(45)
Interests received	2	5	13	23
	<b>10,263</b>	<b>19,350</b>	<b>21,326</b>	<b>12,348</b>
<b>Net cash flows from operating activities</b>				
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment (a)	(2,970)	(759)	(7,710)	(10,543)
Proceeds from disposal of property, plant and equipment/ non-current asset held for sale	69	52	53	4,532
Proceeds from disposal of subsidiary	-	-	-	#
Purchase of other investment	(5,470)	-	(3,631)	-
Proceeds from disposal of other investment	-	2,865	-	8,995
Proceeds from government grants	1,931	1,508	1,125	-
Interests received	256	156	295	413
	<b>(6,184)</b>	<b>3,822</b>	<b>(9,868)</b>	<b>3,397</b>
<b>Net cash flows (used in)/from investing activities</b>				

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)**

	Note	← FYE 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Cash flows from financing activities (b)</b>					
Proceeds from issuance of ordinary shares		-	-	500	1,000
Net change in bankers' acceptances		(184)	(3,272)	(237)	2,544
Drawdown of revolving credit		-	-	200	250
Net change in finance lease liabilities		(1,646)	(1,471)	(673)	(310)
Net changes in term loans		(4,808)	(6,991)	(5,328)	(6,994)
Interests paid		(1,089)	(1,095)	(885)	(993)
Net change in amount owing to immediate holding company		963	-	500	(255)
Net change in amount owing to related companies		683	44	1,709	125
Repayment from ultimate holding company		30	-	-	-
Net change in amount owing by a subsidiary		(298)	(13)	311	-
Net change in amount owing to director		292	-	245	(554)
Dividends paid		(3,500)	(8,324)	(5,500)	(9,090)
<b>Net cash flows used in financing activities</b>		<b>(9,557)</b>	<b>(21,122)</b>	<b>(9,158)</b>	<b>(14,277)</b>
Net (decrease)/increase in cash and cash equivalent		(5,478)	2,050	2,300	1,468
<b>Cash and cash equivalents at the beginning of the financial years</b>		<b>12,513</b>	<b>7,358</b>	<b>9,361</b>	<b>11,701</b>
Effects of exchange rate changes on cash and cash equivalents		323	(47)	40	(25)
<b>Cash and cash equivalents at the end of the financial years</b>	<b>10</b>	<b>7,358</b>	<b>9,361</b>	<b>11,701</b>	<b>13,144</b>

\* (RM376)

# RM0.51

(a) Purchase of property, plant and equipment:

	Note	← FYE 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Purchase of property, plant and equipment	5	13,490	6,399	14,398	34,643
Financed by way of					
finance lease arrangements		(939)	(152)	(200)	(88)
Financed by way of term loans		(9,581)	(5,488)	(6,488)	(18,100)
Financed by way of other payable		-	-	-	(5,912)
<b>Cash payments on purchase of property, plant and equipment</b>		<b>2,970</b>	<b>759</b>	<b>7,710</b>	<b>10,543</b>

(b) Changes in liabilities arising from financing activities comprise of net cash flows from the repayment of term loans, bankers' acceptances and finance lease liabilities during the financial years. There have been no non-cash changes in liabilities arising from financing activities.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS****1. GENERAL INFORMATION**

HPMT Holdings Berhad was incorporated on 16 November 2017 as a private limited liability company, and is domiciled in Malaysia. HPMT Holdings Berhad was converted to a public company limited by shares and assumed its present name on 24 January 2018. The registered office of HPMT Holdings Berhad is located at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, Malaysia. The principal place of business of HPMT Holdings Berhad is located at No. 5, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan.

The principal activity of HPMT Holdings Berhad is investment holding. The details of the operating entities are as follows:

<b>Operating entities</b>	<b>Principal place of business/ country of incorporation</b>	<b>Principal activities</b>
HPMT Industries Sdn. Bhd.	Malaysia	Manufacturing and distribution of cutting tools
Herroz Sdn. Bhd.	Malaysia	Distribution of cutting tools and trading of supporting equipment, accessories and other products for metalworking
Pentagon Coating Technologies Sdn. Bhd.	Malaysia	Provision of physical vapor deposition ("PVD") coating services
MTC Tooling Systems Limited	Hong Kong	Investment holding, distribution of cutting tools and trading of supporting equipment, accessories and other product for metalworking
HPMT (Shenzhen) Limited	People's Republic of China ("PRC")	Distribution of cutting tools and trading of supporting equipment, accessories and other products for metalworking
HPMT Deutschland GmbH	Germany	Distribution of cutting tools and trading of supporting equipment, accessories and other products for metalworking

There have been no significant changes in the nature of these activities during the financial years under review.

The combined financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 3 May 2019.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS****2. BASIS OF PREPARATION**

The combined financial statements of HPMT Holdings Berhad for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 have been prepared pursuant to the listing of and quotation for the entire enlarged issued share capital of HPMT Holdings Berhad on the Main Market of Bursa Malaysia Securities Berhad which consist of the financial statements of the following entities under common control (collectively hereinafter referred to as the "Group") for each of the financial years:

Entities Under Common Control	FYE 31 December			
	2015	2016	2017	2018
HPMT Holdings Berhad	N/A*	N/A*	✓	✓
HPMT Industries Sdn. Bhd.	✓	✓	✓	✓
Herroz Sdn. Bhd.	✓	✓	✓	✓
Pentagon Coating Technologies Sdn. Bhd.	N/A*	N/A*	✓	✓
MTC Tooling Systems Limited	✓	✓	✓	✓
HPMT (Shenzhen) Limited	✓	✓	✓	✓
HPMT Deutschland GmbH	✓	✓	✓	✓

- ✓ *The combined financial statements of the Group include the financial statements of these combining entities for the respective financial years.*
- \* *No financial statements were available for HPMT Holdings Berhad and Pentagon Coating Technologies Sdn. Bhd. as these companies were incorporated on 16 November 2017 and 3 March 2017, respectively.*

The combined financial statements of the Group for the relevant periods were prepared in a manner as if the entities under common control were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of entities within the Group, if later.

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

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)**

The financial information presented in the combined financial statements may not correspond to those in the consolidated financial statements of the Group had the relevant transactions to legally constitute a group been incorporated in the consolidated financial statements for the respective financial years. Such financial information in the combined financial statements does not purport to predict the financial position, results and the cash flows of the entities under common control for those financial years.

The combined financial statements are prepared under the historical cost convention except otherwise indicated in the summary of significant accounting policies.

The accounting policies applied by the Group are consistently applied for all the financial years presented in these combined financial statements.

**2.1 Statement of compliance**

The combined financial statements of the Group have been prepared as a general purpose financial statements and prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

**2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Interpretation ("IC Int")**

The Group has adopted the following new MFRSs, amendments/improvements to MFRSs and new IC Int that are mandatory for the current financial year:

New MFRSs

MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers

Amendments/improvements to MFRSs

MFRS 1	First-time Adoption of MFRSs
MFRS 2	Share-based Payment
MFRS 4	Insurance Contracts
MFRS 128	Investments in Associates and Joint Ventures
MFRS 140	Investment Property

New IC Int

IC Int 22	Foreign Currency Transactions and Advance Consideration
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The adoption of the above new MFRSs, amendments/improvements to MFRSs and new IC Int did not have any significant effect on the combined financial statements of the Group and did not result in significant changes to the Group's existing accounting policies, except for those as discussed below.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int (continued)*****MFRS 9 Financial Instruments***

MFRS 9 replaced the guidance of MFRS 139, Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and liabilities, on impairment of financial assets, and on hedge accounting.

Key requirements of MFRS 9:

- MFRS 9 introduces an approach for classification and measurement of financial assets which is driven by cash flow characteristics and the business model in which an asset is held.

In essence, if a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the statements of financial position, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the statements of financial position.

- MFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses which replaced the "incurred loss" model in MFRS 139. Specifically, this Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Trade receivables that do not contain a significant financing component shall always measure the loss allowance at an amount equal lifetime expected credit losses.
- MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in its financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

The retrospective application of MFRS 9 does not require restatement of 2017 comparative financial statements. As such, the Group has not restated the comparative information, which continues to be reported under MFRS 139. The Group recognised any difference between the carrying amount of financial instruments under MFRS 139 and the restated carrying amount under MFRS 9 in the opening balance of retained earnings (or other equity components) of the annual reporting period including the date of initial application i.e. 1 January 2018.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int (continued)*****MFRS 9 Financial Instruments (continued)******Impact of the adoption of MFRS 9***

The adoption of MFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. Other than the enhanced new disclosures relating to financial instruments, which the Group has complied with in the current financial year, the adoption of this standard does not have any significant effect on the financial statements of the Group, except for those as discussed below.

**(a) Classification and measurement**

Loans and receivables classified as amortised cost

Trade receivables, other receivables and other financial assets, including refundable deposits previously classified as loans and receivables under MFRS 139 as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Accordingly, these financial assets are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

In summary, upon the adoption of MFRS 9, the Group had the following reclassifications as at 1 January 2018:

MFRS 139 measurement category	RM'000	MFRS 9 measurement category	
		Amortised cost RM'000	Fair value through profit or loss RM'000
<b>Financial assets</b>			
<b><u>Loans and receivables</u></b>			
Other investments	8,995	-	8,995
Trade and other receivables			
less prepayments	18,711	18,711	-
Cash and short-term deposits	12,908	12,908	-
	<u>40,614</u>	<u>31,619</u>	<u>8,995</u>
<b>Financial liabilities</b>			
<b><u>Other financial liabilities</u></b>			
Trade and other payables	(13,665)	(13,665)	-
Loans and borrowings	(22,684)	(22,684)	-
	<u>(36,349)</u>	<u>(36,349)</u>	<u>-</u>



**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.2 Adoption of new MFRSs, amendments/improvements to MFRSs and new IC Int (continued)*****MFRS 9 Financial Instruments (continued)*****(b) Impairment**

In previous financial years, trade and other receivables are impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the receivables (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the receivables ("incurred loss model"). Upon adoption of MFRS 9, the Group records expected credit losses on all its trade and other receivables, either on a 12-month or lifetime basis. Accordingly, no further impairment as at the date of initial application arising from application of simplified approach to record the lifetime expected credit losses.

**2.3 New MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective**

The Group has not adopted the following new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments of IC Int that have been issued, but yet to be effective:

	<b>Effective for financial years beginning on or after</b>
<u>New MFRSs</u>	
MFRS 16 Leases	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
<u>Amendments/Improvements to MFRSs</u>	
MFRS 1 First-time Adoption of MFRSs	1 January 2021 <sup>#</sup>
MFRS 2 Share-based Payment	1 January 2020*
MFRS 3 Business Combinations	1 January 2019/ 1 January 2020*
MFRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 January 2020*
MFRS 6 Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 7 Financial Instruments: Disclosures	1 January 2021 <sup>#</sup>
MFRS 9 Financial Instruments	1 January 2019
MFRS 10 Consolidated Financial Statements	Deferred
MFRS 11 Joint Arrangements	1 January 2019
MFRS 14 Regulatory Deferral Accounts	1 January 2020*
MFRS 15 Revenue from Contracts with customers	1 January 2021 <sup>#</sup>
MFRS 101 Presentation of Financial Statements	1 January 2020*
MFRS 107 Statements of Cash Flows	1 January 2021 <sup>#</sup>
MFRS 108 Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020*

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective (continued)**

The Group has not adopted the following new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments of IC Int that have been issued, but not yet effective: (continued)

	<b>Effective for financial years beginning on or after</b>
<u>Amendments/Improvements to MFRSs (continued)</u>	
MFRS 112 Income taxes	1 January 2019
MFRS 116 Property, Plant and Equipment	1 January 2021 <sup>#</sup>
MFRS 119 Employee Benefits	1 January 2019
MFRS 123 Borrowing Costs	1 January 2019
MFRS 128 Investments in Associates and Joint Ventures	1 January 2019/ Deferred
MFRS 132 Financial instruments: Presentation	1 January 2021 <sup>#</sup>
MFRS 134 Interim Financial Reporting	1 January 2020 <sup>*</sup>
MFRS 136 Impairment of Assets	1 January 2021 <sup>#</sup>
MFRS 137 Provisions, Contingent Liabilities and Contingent Assets	1 January 2020 <sup>*</sup>
MFRS 138 Intangible Assets	1 January 2020 <sup>*</sup>
MFRS 140 Investment Property	1 January 2021 <sup>#</sup>
<u>New IC Int</u>	
IC Int 23 Uncertainty over Income Tax Treatments	1 January 2019
<u>Amendments to IC Int</u>	
IC Int 12 Service Concession Arrangements	1 January 2020 <sup>*</sup>
IC Int 19 Extinguishing Financial Liabilities with Equity Instruments	1 January 2020 <sup>*</sup>
IC Int 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2020 <sup>*</sup>
IC Int 22 Foreign Currency Transactions and Advance Consideration	1 January 2020 <sup>*</sup>
IC Int 132 Intangible Assets – Web Site Costs	1 January 2020 <sup>*</sup>

\* Amendments to References to the Conceptual Framework in MFRSs

# Amendments as to the consequence of effective of MFRS 17 Insurance Contracts

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective (continued)**

- 2.3.1** The Group plans to adopt the above applicable new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int when they become effective. A brief discussion on the above significant new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int are summarised below.

***MFRS 16 Leases***

Currently under MFRS 117 Leases, leases are classified either as finance leases or operating leases. A lessee recognises on its statement of financial position assets and liabilities arising from the finance leases.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. All leases will be brought onto its statement of financial position except for short-term and low value asset leases.

On initial adoption of MFRS 16, there may be impact on the accounting treatment for leases, which the Group as a lessee currently accounts for as operating leases. On adoption of this standard, the Group will be required to capitalise its rented premises, equipment on the statements of financial position by recognising them as "rights-of-use" assets and their corresponding lease liabilities for the present value of future lease payments.

The Group plans to adopt this standard when it becomes effective in the financial year beginning 1 January 2019 by applying the transitional provisions and include the required additional disclosures in its financial statements of that year. The Group will likely electing the practical expedient not to reassess whether a contract contains a lease at the date of initial application. Accordingly, existing lease contracts that are still effective on 1 January 2019 will be accounted for as lease contracts under MFRS 16.

***MFRS 17 Insurance Contracts***

MFRS 17 introduces consistent accounting for all insurance contracts. MFRS 17 requires entities that issue insurance contracts to recognise and measure a group of insurance contracts at:

- (i) a risk-adjusted present value of future cash flows that incorporates information that is consistent with observable market information; and
- (ii) an amount representing the unearned profit in the group of contracts. Profits from the group of insurance contracts are recognised over the insurance coverage period. In addition, insurance revenue is presented separately from insurance finance income or expenses.

For insurance contracts with coverage period of one year or less, MFRS 17 allows an entity to measure the amount relating to remaining service by allocating the premium over the coverage period. This standard is not applicable to the Group.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective (continued)*****Amendments to MFRS 3 Business Combinations and MFRS 11 Joint Arrangements***

Amendments to MFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. Amendments to MFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

***Amendments to MFRS 9 Financial Instruments***

Amendments to MFRS 9 allow companies to measure prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if certain conditions are met.

The amendments also clarify that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss.

***Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures***

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

***Amendments to MFRS 112 Income Taxes***

Amendments to MFRS 112 clarify that an entity recognises the income tax consequences of dividends in profit or loss because income tax consequences of dividends are linked more directly to past transactions than to distributions to owners, except if the tax arises from a transaction which is a business combination or is recognised in other comprehensive income or directly in equity.

***Amendments to MFRS 119 Employee Benefits***

Amendments to MFRS 119 require an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability/(asset).

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective (continued)*****Amendments to MFRS 123 Borrowing Costs***

Amendments to MFRS 123 clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings.

***Amendments to MFRS 128 Investments in Associates and Joint Ventures***

Amendments to MFRS 128 clarify that companies shall apply MFRS 9, including its impairment requirements, to account for long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint to which the equity method is not applied.

***IC Int 23 Uncertainty over Income Tax Treatments***

IC Int 23 clarifies that where there is uncertainty over income tax treatments, an entity shall:

- (i) assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations; and
- (ii) reflect the effect of uncertainty in determining the related tax position (using either the most likely amount or the expected value method) if it concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

***Amendments to References to the Conceptual Framework in MFRSs***

The Malaysian Accounting Standards Board has issued a *revised Conceptual Framework for Financial Reporting* and amendments to fourteen Standards under the MFRSs Framework on 30 April 2018.

The revised Conceptual Framework comprises a comprehensive set of concepts of financial reporting. It is built on the previous version of the Conceptual Framework issued in 2011. The changes to the chapters on the objective of financial reporting and qualitative characteristics of useful financial information are limited, but with improved wordings to give more prominence to the importance of providing information need to assess management's stewardship of the entity's economic resources.

Other improvements of the revised Conceptual Framework include a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance – in particular the definition of a liability – and clarifications in important areas, such as the role of prudence and measurement uncertainty in financial reporting.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****2. BASIS OF PREPARATION (CONTINUED)****2.3 New MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective (continued)*****Amendments to References to the Conceptual Framework in MFRSs (continued)***

The amendments to the fourteen Standards are to update the references and quotations in these Standards which include MFRS 2, MFRS 3, MFRS 6, MFRS 14, MFRS 101, MFRS 108, MFRS 134, MFRS 137, MFRS 138, IC Int 12, IC Int 19, IC Int 20, IC Int 22 and IC Int 132.

***Amendments as to the consequence of effective of MFRS 17 Insurance Contracts***

The amendments to the nine Standards are a consequence of MFRS 17 with an effective date on or after 1 January 2021, which include MFRS 1, MFRS 5, MFRS 7, MFRS 15, MFRS 107, MFRS 116, MFRS 132, MFRS 136 and MFRS 140.

**2.3.2** The Group is currently performing a detailed analysis to determine the election of the practical expedients and to quantify the financial effects arising from the adoption of the new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int.

**2.4 Functional and presentation currency**

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which they operate (the "functional currency"). The combined financial statements are presented in Ringgit Malaysia ("RM"), which is also the Group's functional currency, and has been rounded to the nearest thousand, unless otherwise stated.

**2.5 Basis of measurement**

The combined financial statements of the Group have been prepared on the historical cost basis, except as otherwise disclosed in Note 3.

**2.6 Use of estimates and judgement**

The preparation of combined financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the combined financial statements are disclosed in Note 4.

## 15. ACCOUNTANTS' REPORT

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### HPMT HOLDINGS BERHAD

#### Accountants' Report

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### NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the combined financial statements of the Group.

##### 3.1 Basis of combination

The combined financial statements of the Group comprise the financial statements of HPMT Industries Sdn. Bhd., Herroz Sdn. Bhd., Pentagon Coating Technologies Sdn. Bhd., MTC Tooling Systems Limited, HPMT (Shenzhen) Limited, and HPMT Deutschland GmbH. The financial statements used in the preparation of the combined financial statement are prepared for the same reporting date as HPMT Holdings Berhad. Consistent accounting policies are applied to like transactions and events in similar circumstances.

Entities under a reorganisation does not result in any change in economic substance. Accordingly, the combined financial statements of the Group is a continuation of the Group and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the combined financial statements at the pre-combination carrying amounts, without restatement to fair value;
- the retained earnings and other equity balances of acquired entity immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the differences arising from the change in equity structure of the Group will be accounted for in other reserves.

##### (a) Subsidiaries and business combination

Subsidiaries are entities (including structured entities) over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the combined financial statements from the date the Group obtains control of the acquirees until the date the Group loses control of the acquirees.

The Group applies the acquisition method to account for business combinations from the acquisition date.

**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.1 Basis of combination (continued)****(a) Subsidiaries and business combination (continued)**

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income ("OCI") are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.



**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.1 Basis of combination (continued)****(a) Subsidiaries and business combination (continued)**

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the combined statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, a joint venture, an available-for-sale financial asset or held for trading financial asset.

Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

**(b) Non-controlling interests**

Non-controlling interests represent the equity in subsidiary not attributable, directly or indirectly, to owners of HPMT Holdings Berhad and are presented separately in the combined financial statement within equity.

Losses attributable to the non-controlling interests are allocated to the non-controlling interests even if the losses exceed the non-controlling interests.

**(c) Transactions eliminated on consolidation**

Inter-group balances and transactions, and any unrealised income and expenses arising from inter-group transactions are eliminated in preparing the combined financial statements.

**3.2 Foreign currency transactions and operations****(a) Translation of foreign currency transactions**

Foreign currency transactions are translated to the respective functional currencies of the Group entities at the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.2 Foreign currency transactions and operations (continued)****(a) Translation of foreign currency transactions (continued)**

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss except for monetary items that are designated as hedging instruments in either a cash flow hedge or a hedge of the Group's net investment of a foreign operation. When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences are recognised in profit or loss in the separate financial statements of the parent company or the individual financial statements of the foreign operation. In the combined financial statements, the exchange differences are considered to form part of a net investment in a foreign operation and are recognised initially in OCI until its disposal, at which time, the cumulative amount is reclassified to profit or loss.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

**(b) Translation of foreign operations**

The assets and liabilities of foreign operations denominated in the functional currency different from the presentation currency, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated at exchange rates at the dates of the transactions.

Exchange differences arising on the translation are recognised in OCI. However, if the foreign 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 foreign exchange translation reserves related to that foreign operation is reclassified to profit or loss. For a partial disposal not involving loss of control of a subsidiary that includes a foreign operation, the proportionate share of cumulative amount in foreign exchange translation reserve is reattributed to non-controlling interests. For partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount in foreign exchange translation reserve is reclassified to profit or loss.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments**

Financial instruments are recognised in the statements of financial position when, and only when, the Group becomes a party to the contract provisions of the financial instrument.

Accounting policies applied from 1 January 2018

Except for the trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract; it is a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

**(a) Subsequent measurement**

The Group categorises the financial instruments as follows:

**(i) Financial assets**

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses upon derecognition
- Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)****(a) Subsequent measurement (continued)**

Accounting policies applied from 1 January 2018 (continued)

The Group categorises the financial instruments as follows: (continued)

**(i) Financial assets (continued)**

The Group reclassifies financial assets when and only when its business models for managing those assets change.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost**

Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

- **Fair value through other comprehensive income (FVOCI)**

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied from 1 January 2018 (continued)

**(a) Subsequent measurement (continued)**

The Group categorises the financial instruments as follows: (continued)

**(i) Financial assets (continued)**Debt instruments (continued)

- **Fair value through profit or loss (FVPL)**

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with net changes in fair value recognised in the profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Upon initial recognition, the Group can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied from 1 January 2018 (continued)

**(a) Subsequent measurement (continued)**

The Group categorises the financial instruments as follows (continued):

**(ii) Financial liabilities**

The Group classifies its financial liabilities in the following measurement categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value with the gain or loss recognised in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

**Financial liabilities at amortised cost**

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

**(b) Financial guarantee contracts**

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

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of the loss allowance determined in accordance with Section 5.5 of MFRS 9 and the amount initially recognised, when appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied from 1 January 2018 (continued)

**(c) Regular way purchase or sale of financial assets**

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting (i.e. the date the Group commits itself to purchase or sell an asset).

Trade date accounting refers to:

- (i) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

**(d) Derecognition**

A financial asset or a part of it is derecognised when, and only when:

- (i) the contractual rights to receive cash flows from the financial asset expire; or
- (ii) the Group has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party; and either
  - (a) the Group has transferred substantially all the risks and rewards of the asset; or
  - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

The Group evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of their continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied from 1 January 2018 (continued)

**(d) Derecognition (continued)**

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

**(e) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

**(f) Derivatives**

The Group uses interest swap contracts to hedge the exposure of floating interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit or loss.

**(g) Hedge accounting**

For the purpose of hedge accounting, hedges are classified as:

- (i) Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- (ii) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- (iii) Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.



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Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied from 1 January 2018 (continued)

**(g) Hedge accounting (continued)**

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- (i) There is 'an economic relationship' between the hedged item and the hedging instrument.
- (ii) The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- (iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

**Fair value hedge**

The change in the fair value of a hedging instrument is recognised in the profit or loss as other expense (or OCI, if the hedging instrument hedges an equity instrument for which the Group has elected to present changes in fair value in OCI). The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the profit or loss as other expense. If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in OCI, those amount remain in OCI.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest method ("EIR") method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The amortisation is based on a recalculated effective interest rate at the date of amortisation begins.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

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## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**Accounting policies applied from 1 January 2018 (continued)**(g) Hedge accounting (continued)**Cash flow hedge

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in OCI and the ineffective portion is recognised in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted for depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Hedge of a net investment

In a net investment hedge, the effective portion of the gain or loss on the hedging instrument is recognised in OCI and the ineffective portion is recognised in profit or loss.

Accounting policies applied until 31 December 2017

Financial instruments are recognised initially at fair value, except for financial instruments not measured at fair value through profit or loss ("FVTPL"), they are measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial instruments.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as FVTPL. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**Accounting policies applied until 31 December 2017 (continued)**(a) Subsequent measurement**

The Group categorises the financial instruments as follows:

**(i) Financial assets**Financial assets at FVTPL

Financial assets are classified as financial assets at FVTPL when the financial assets are either held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or are designated into this category upon initial recognition.

Subsequent to initial recognition, the financial assets at FVTPL are measured at fair value with the gain or loss recognised in profit or loss.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured are measured at cost.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a). Gains and losses are recognised in profit or loss through the amortisation process.

Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a). Gains and losses are recognised in profit or loss through the amortisation process.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied until 31 December 2017 (continued)

**(a) Subsequent measurement (continued)**

The Group categorises the financial instruments as follows: (continued)

**(i) Financial assets (continued)**Available-for-sale financial assets

Available-for-sale financial assets comprise investments in equity and debt securities that are designated as available-for-sale or are not classified in any of the three preceding categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair values hedges which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's right to receive payment is established.

Unquoted equity instruments carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(a).

**(ii) Financial liabilities**

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

**(b) Financial guarantee contracts**

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

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

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## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**

Accounting policies applied until 31 December 2017 (continued)

**(c) Regular way purchase or sale of financial assets**

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

**(d) Derecognition**

A financial asset or a part of it is derecognised when, and only when, the contractual rights to receive the cash flows from the financial asset expire or control of the asset is not retained or substantially all the risks and rewards of ownership of the financial asset are transferred to another party. 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 other comprehensive income is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

**(e) Offsetting of financial instruments**

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

**(f) Derivatives**

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

**(g) Hedge accounting**Fair value hedge

In a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the reporting date is recognised in profit or loss. For a hedged item that is otherwise measured at cost, the gain or loss attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. For a hedged item categorised as available-for-sale, the fair value gain or loss attributable to the hedged risk is recognised in profit or loss.

Fair value hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective or the hedge designation is revoked.

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Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.3 Financial instruments (continued)**Accounting policies applied until 31 December 2017 (continued)**(g) Hedge accounting (continued)**Cash flow hedge

In a cash flow hedge, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are transferred from equity and included in the initial amount of the asset or liability.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

Hedge of a net investment

Same accounting policies applied until 31 December 2017 and from 1 January 2018.

**3.4 Property, plant and equipment****(a) Recognition and measurement**

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.10(b).

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.4 Property, plant and equipment (continued)****(b) Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

**(c) Depreciation**

Freehold land has an unlimited useful life and therefore is not depreciated. Work-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use.

All other property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	<b>Useful lives (years)</b>
Buildings	50 years
Leasehold land and building	50 years
Plant and machinery	10 years
Office equipment and factory equipment & furniture and fittings	10 years
Motor vehicles	5 years
Computer and software	5 years
Electrical installations and renovation	10 years

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted as appropriate.

**(d) Derecognition**

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.4 Property, plant and equipment (continued)****3.5 Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

**(a) Lessee accounting**

If an entity in the Group is a lessee in a finance lease, it capitalises the leased asset and recognises the related liability. The amount recognised at the inception date is the fair value of the underlying leased asset or, if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged as expenses in the periods in which they are incurred.

The capitalised leased asset is classified by nature as property, plant and equipment or investment property.

For operating leases, the Group does not capitalise the leased asset or recognise the related liability. Instead lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

**(b) Lessor accounting**

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.



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## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.6 Inventories**

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

Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a first-in-first out basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost basis.

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

**3.7 Cash and cash equivalents**

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand, bank balances and deposits and other short-term, highly liquid investments with a maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are presented net of bank overdrafts.

**3.8 Non-current assets or disposal groups held for sale**

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when:

- the asset or disposal group is available for immediate sale in its present condition;
- the management is committed to a plan to sell the asset and the asset or disposal group is actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale is expected to be completed within one year from the date of classification and actions required to complete the plan indicates that it is unlikely that significant changes to the plan will be made or that the sale will be withdrawn.

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

Any impairment loss on the disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property that is measured at fair value, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. A gain for any subsequent increase in fair value less costs to sell of an asset is recognised but not in excess of the cumulative impairment loss that has been recognised.

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

Assets and liabilities classified as held for sale are presented separately as current items in the statements of financial position.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.9 Discontinued operation**

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statements of profit or loss and OCI is represented as if the operation has been discontinued from the start of the comparative period.

**3.10 Impairment of assets****(a) Impairment of financial assets**Accounting policies applied from 1 January 2018

Financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI), lease receivables or a loan commitment and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 which is related to the accounting for expected credit losses on the financial assets. Expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

The Group measures loss allowance at an amount equal to lifetime expected credit loss, except for the following, which are measured as 12-month expected credit loss:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables, the Group applies the simplified approach permitted by MFRS 9 to measure the loss allowance at an amount equal to lifetime expected credit losses.

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

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.10 Impairment of assets (continued)****(a) Impairment of financial assets (continued)**Accounting policies applied from 1 January 2018 (continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the borrower is unable to pay its credit obligations to the Group in full, without taking into account any credit enhancements held by the Group; or
- the contractual payment of the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default of past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.10 Impairment of assets (continued)****(a) Impairment of financial assets (continued)**Accounting policies applied from 1 January 2018 (continued)

The amount of expected credit losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss. For financial assets measured at FVOCI, the loss allowance shall be recognised in OCI and shall not reduce the carrying amount of the financial asset in the statement of financial position.

Accounting policies applied until 31 December 2017

At each reporting date, all financial assets (except for financial assets categorised at FVTPL) are assessed whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Evidence of impairment may include indications that the debtors or a group of debtors are 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 data indicates that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables and held-to-maturity investments

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the Group may include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Financial assets that are individually assessed for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment that was recognised, the previously recognised impairment loss is then reversed by adjusting an allowance account to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.10 Impairment of assets (continued)****(a) Impairment of financial assets (continued)**Accounting policies applied until 31 December 2017 (continued)Loans and receivables and held-to-maturity investments (continued)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If a write-off is later recovered, the recovery is credited to the profit or loss.

Available-for-sale financial assets

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment. The Group uses its judgement to determine what is considered as significant or prolonged decline, evaluating past volatility experiences and current market conditions.

Where there is objective evidence that the asset is impaired, the decline in the fair value of an available-for-sale financial asset together with the cumulative loss recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of cumulative loss that is reclassified from equity to profit or loss shall be the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss.

Impairment losses on available-for-sale equity investments are not reversed through profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss, is recognised in OCI.

For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to a loss event occurring after the recognition of the impairment loss in profit or loss.

Unquoted equity instruments carried at cost

In the case of unquoted equity instruments carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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**HPMT HOLDINGS BERHAD**Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.10 Impairment of assets (continued)****(b) Impairment of non-financial assets**

The carrying amounts of non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group makes an estimate of the assets' recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

The recoverable amount of an asset of a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceeds the recoverable amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit of groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss, except for assets that were previously revalued with the revaluation surplus recognised in OCI. In the latter case, the impairment is recognised in OCI up to the amount of any previous revaluation.

For other assets, 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. An impairment loss is reversed only if there have been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.11 Share capital****Ordinary shares**

Ordinary shares are equity instruments. An equity instrument is a contract that evidences a residual interest in the assets of HPMT Holdings Berhad after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**3.12 Employee benefits****(a) Short-term employee benefits**

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group.

**(b) Defined contribution plans**

As required by law, the Group contributes to the Employees Provident Fund ("EPF"), the national defined contribution plan. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

**3.13 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

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 provision is reversed.

**15. ACCOUNTANTS' REPORT**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.14 Revenue and other income**

The Group recognises revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group measures revenue from sale of good or service at its transaction price, being the amount of consideration to which the Group expects to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties such as goods and service tax.

For contract with separate performance obligations, the transaction price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the standalone selling price is not directly observable, the Group estimates it by using the costs plus margin approach.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Group has assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract, or forms a part of the existing contracts.

**Financing components**

The Group has applied the practical expedient for not to adjust the promised amount of consideration for the effects of a significant financing components if the Group expects that the period between the transfer of the promised goods or services to the customer and payment by the customer will be one year or less.

**(a) Sale of goods – manufacturing or trading**

Revenue from sale of manufactured goods or trading goods are recognised at a point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

Sales are made with a credit term of 30 days to 90 days, which is consistent with market practice, therefore, no element of financing is deemed present. A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

Revenue is recognised based on the price specified in the contract.

Where consideration is collected from customer in advance for sale of manufactured or trading goods, a contract liability is recognised for the customer deposits. Contract liability would be recognised as revenue upon sale of manufactured good to the customer.



## 15. ACCOUNTANTS' REPORT

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### HPMT HOLDINGS BERHAD

#### Accountants' Report

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### NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.14 Revenue and other income (continued)

###### (b) Sale of services

Revenue from sale of services is recognised at a point in time when service is rendered to the customer, which in the point in time when the performance obligation in the contract with customer is satisfied.

###### (c) Interest income

Interest income is recognised using the effective interest method.

###### (d) Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

##### 3.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Where the grant related to an asset, it is recognised as deferred income in the statement of financial position and transferred to profit or loss over the expected useful life of the related asset. Where the grant related to an expense item, it is recognised in profit or loss, under the heading of "other income", on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

##### 3.16 Borrowing costs

Borrowing costs are interests and other costs that the Group incurs in connection with borrowing of funds.

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

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

The Group begins capitalising borrowing costs when the Group has incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

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

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### HPMT HOLDINGS BERHAD Accountants' Report

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#### NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 3.17 Income tax

Income tax expense in profit or loss comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or OCI.

##### (a) Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

##### (b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.17 Income tax (continued)****(b) Deferred tax (continued)**

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures, except where the Group is able to control the reversal timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

**3.18 Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Managing Director of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.19 Fair value measurements**

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

**3.20 Contingencies**

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group:

Contingent liability is also referred as a present obligation that arises from past events but is not recognised because:

- (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- (b) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities and assets are not recognised in the statements of financial position.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****4. SUMMARY OF ACCOUNTING ESTIMATES AND JUDGEMENTS**

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amount recognised in the financial years include the following:

**4.1 Determining the functional currency**

Certain subsidiaries of the Group operate in overseas jurisdictions but conducts sales, purchases and other transactions in multiple currencies. Judgement is applied in determining the functional currency wherever the indications are mixed. The Group uses, in a hierarchy, sale indicators as the primary basis, followed by purchase and operating expense indicators, and in the event that those indicators are not conclusive, the currency in which borrowings and other funds are raised for financing the operations.

**4.2 Classification of finance lease and operating leases**

The Group classifies a lease as a finance lease or an operating lease based on the criterion of the extent to which significant risks and rewards incident to ownership of the underlying asset lie. As a lessee, the Group recognises a lease as a finance lease if it is exposed to significant risks and rewards incident to ownership of the underlying asset. In applying judgements, the Group considers whether there is significant economic incentive to exercise a purchase option and any optional renewal periods. A lease is classified as a finance lease if the lease term is for at least 75% the remaining economic life of the underlying asset, the present value of lease payments is at least 90% of the fair value of the underlying asset, or the identified asset in the lease is a specialised asset which can only be used by the lessee without major modifications. All other leases that do not result in a significant transfer of risks and rewards are classified as operating leases.

**4.3 Disposal group classified as held for sale**

As disclosed in Note 12(a), during the financial year ended 31 December 2017, the Board of Directors of MTC Tooling System Limited approved a plan to sell a subsidiary, MTC (Guangzhou) Tooling Systems Limited, which is located in Guangzhou, China. The Board of Directors considered that the subsidiary met the criteria to be classified as disposal group classified as held for sale as at 31 December 2017 for the following reasons:

- MTC (Guangzhou) Tooling Systems Limited is available for immediate sale and can be sold to a potential buyer in its current condition;
- the Board of Directors had entered into preliminary negotiations with a potential buyer. Should negotiations with the party not lead to a sale, a number of other potential buyers had been identified; and
- the sale of MTC (Guangzhou) Tooling Systems Limited was completed on 4 May 2018.

The disposal group held for sale is measured at lower of carrying amount and fair value less costs to sell. The calculation for the fair value less costs to sell is subject to judgement due to a range of potential sales prices and assumptions around the method are involved.

The carrying amounts of the disposal group held for sale are disclosed in Note 12(a).

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****4. SUMMARY OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****4.5 Depreciation and useful lives of property, plant and equipment**

As disclosed in Note 3.4, the Group reviews the residual values, useful lives and depreciation methods at the end of each reporting period. Estimates are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applied and therefore, future depreciation charges could be revised.

The carrying amounts of the Group's property, plant and equipment are disclosed in Note 5.

**4.6 Fair value measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the statements of financial position cannot be measured based on quoted prices in active markets, their fair value are measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The information on the fair value measurements of financial assets and liabilities are disclosed in Note 26(c).

**4.7 Impairment of financial assets**

The impairment provisions for financial assets and are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimate at the end of each reporting period.

The Group uses a provision matrix to calculate expected credit losses for trade receivable. The provision rates are depending on the number of days that a trade receivable is past due. The Group uses the grouping according to the customer segments that have similar loss patterns. The criteria include geographical region, product type, customer type and rating, collateral or trade credit insurance.

The assessment of the correlation between historical observed default rates, forward-looking estimate and expected credit losses is a significant estimate. The amount of expected credit loss is sensitive to changes in circumstances and of forecast economic over the expected lives of the financial assets. The Group's historical credit loss experience and forecast of the economic conditions may also not be representative of customer's actual default in the future.

The information about the expected credit losses on the Group's financial assets are disclosed in Note 26(b).

**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****4. SUMMARY OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****4.8 Measurement of income taxes**

The Group operates in various jurisdictions and are subject to income taxes in each jurisdiction. Significant judgement is required in determining the Group's estimation for current and deferred taxes. When the final outcome of the tax payable is determined with the tax authorities, the amounts might be different from the initial estimates of the taxes payable. Such differences may impact the current and deferred taxes in the period when such determination is made. The Group will make adjustments for current or deferred taxes in respect of prior years in the current period on those differences arise.

The income tax expenses of the Group are disclosed in Note 23.

**4.9 Deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences, unused tax losses and unabsorbed capital allowances based on the projected future profits of the subsidiaries to the extent that is probable that taxable profit will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the future performance and taxable profits of the subsidiary.

The carrying amount of the Group's recognised deferred tax assets is disclosed in Note 6.

**4.10 Write-down of obsolete or slow moving inventories**

The Group writes down its obsolete or slow moving inventories based on the assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses sales trend and current economic trends when making a judgement to evaluate the adequacy of the write-down of obsolete or slow moving inventories. Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

The carrying amounts of the Group's inventories are disclosed in Note 8.

**4.11 Impairment of non-financial assets**

The Group assesses impairment of non-financial assets whenever the events or changes in circumstances indicate that the carrying amount of an asset may be irrecoverable i.e. the carrying amount of the asset is more than the recoverable amount.

Recoverable amount is measured at the higher of the fair value less cost of disposal for that asset and its value-in-use. The Group uses fair value less cost to sell as the recoverable amount. Fair values are arrived at using comparison method and valuation technique method to suit the assets characteristic of the Group.

## 15. ACCOUNTANTS' REPORT

HPMT HOLDINGS BERHAD  
Accountants' Report

## NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 5. PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land		Leasehold land and building		Plant and machinery		Office and factory equipment & furniture and fittings		Motor vehicles		Computer and software		Electrical installations & renovation		Work-in-progress		Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 January 2015	3,340	5,660	1,673	48,772	1,627	1,868	1,373	1,244	-	-	-	-	65,557				
Additions	-	-	-	10,652	77	945	106	1,710	-	-	-	-	13,490				
Disposal	-	-	-	-	-	(159)	-	-	-	-	-	-	(159)				
At 31 December 2015	3,340	5,660	1,673	59,424	1,704	2,654	1,479	2,954	-	-	-	-	78,888				
Additions	-	-	-	5,945	155	152	147	-	-	-	-	-	6,399				
Disposals	-	-	-	-	(4)	(168)	-	-	-	-	-	-	(172)				
Exchange differences	-	-	74	-	5	(7)	-	-	-	-	-	-	72				
At 31 December 2016	3,340	5,660	1,747	65,369	1,860	2,631	1,626	2,954	-	-	-	-	85,187				
Additions	-	-	-	12,701	164	252	169	92	-	-	-	1,020	14,398				
Disposals/Write off/Transfer	-	-	(1,502)	-	(51)	(191)	-	-	-	-	-	-	(1,744)				
Exchange differences	-	-	(183)	-	(7)	(11)	(1)	-	-	-	-	-	(202)				
At 31 December 2017	3,340	5,660	62	78,070	1,966	2,681	1,794	3,046	-	-	-	-	97,639				
Additions	11,800	7,764	-	14,254	445	86	294	-	-	-	-	-	34,643				
Disposals/Transfer	-	-	(63)	1,020	-	-	-	-	-	-	-	-	(63)				
Exchange differences	-	-	1	-	(3)	(5)	(1)	-	-	-	-	-	(8)				
At 31 December 2018	15,140	13,424	-	93,344	2,408	2,762	2,087	3,046	-	-	-	-	132,211				



## 15. ACCOUNTANTS' REPORT

## HPMT HOLDINGS BERHAD

Accountants' Report

## NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Accumulated depreciation	Freehold land RM'000	Building RM'000	Leasehold land and building RM'000	Plant and machinery RM'000	Office and factory equipment & fittings RM'000				Motor vehicles RM'000	Computer and software RM'000	Electrical installations & renovation RM'000	Work-in-progress RM'000	Total RM'000
					Office and factory equipment & fittings RM'000	Motor vehicles RM'000	Computer and software RM'000	Electrical installations & renovation RM'000					
At 1 January 2015	-	500	310	26,340	945	1,161	996	449	-	-	-	30,701	
Depreciation charge for the financial year	-	113	32	4,074	132	296	129	174	-	-	-	4,950	
Disposals	-	-	-	-	-	(142)	-	-	-	-	-	(142)	
Exchange differences	-	-	3	-	3	2	-	-	-	-	-	8	
At 31 December 2015	-	613	345	30,414	1,080	1,317	1,125	623	-	-	-	35,517	
Depreciation charge for the financial year	-	113	33	4,894	137	370	133	286	-	-	-	5,966	
Disposals	-	-	-	-	-	(168)	-	-	-	-	-	(168)	
Exchange differences	-	-	18	-	5	(3)	-	-	-	-	-	20	
At 31 December 2016	-	726	396	35,308	1,222	1,516	1,258	909	-	-	-	41,335	
Depreciation charge for the financial year	-	113	34	5,513	158	407	141	292	-	-	-	6,658	
Disposals/Write off/Transfer	-	-	(330)	-	(45)	(157)	-	-	-	-	-	(532)	
Exchange differences	-	-	(43)	-	(5)	(8)	-	-	-	-	-	(56)	
At 31 December 2017	-	839	57	40,821	1,330	1,758	1,399	1,201	-	-	-	47,405	
Depreciation charge for the financial year	-	113	4	6,709	159	385	201	293	-	-	-	7,864	
Disposals/Transfer	-	-	(59)	-	-	-	-	-	-	-	-	(59)	
Exchange differences	-	-	(2)	-	(2)	(3)	-	-	-	-	-	(7)	
At 31 December 2018	-	952	-	47,530	1,487	2,140	1,600	1,494	-	-	-	55,203	

## 15. ACCOUNTANTS' REPORT

HPMT HOLDINGS BERHAD  
Accountants' Report

## NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Carrying amount	Freehold land		Leasehold land and building		Office and factory equipment & furniture and fittings			Motor vehicles	Computer and software	Electrical installations & renovation	Work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000					
At 31 December 2015	3,340	5,047	1,328	29,010	624	1,337	354	2,331	-	43,371		
At 31 December 2016	3,340	4,934	1,351	30,061	638	1,115	368	2,045	-	43,852		
At 31 December 2017	3,340	4,821	5	37,249	636	923	395	1,845	1,020	50,234		
At 31 December 2018	15,140	12,472	-	45,814	921	622	487	1,552	-	77,008		

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****(a) Assets under finance lease**

The carrying amount of assets under finance lease arrangements are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Motor vehicles	1,208	983	854	605
Machinery and equipment	4,220	1,691	-	-
	<b>5,428</b>	<b>2,674</b>	<b>854</b>	<b>605</b>

**(b) Assets under term loans**

The carrying amount of assets under term loans are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Freehold land	3,340	3,340	3,340	15,140
Building	5,047	4,934	4,821	12,472
Leasehold land and building	1,328	1,351	7	-
Machinery and equipment	16,533	19,834	26,135	30,105
	<b>26,248</b>	<b>29,459</b>	<b>34,303</b>	<b>57,717</b>

**(c) Assets pledged as security**

Freehold land and building with an aggregate carrying amount of RM27,611,233 (2017: RM8,160,433; 2016: RM8,273,633; 2015: RM8,386,833) have been pledged as security to secure term loans of a commonly controlled entity as disclosed in Note 15.

## 15. ACCOUNTANTS' REPORT

**HPMT HOLDINGS BERHAD**  
 Accountants' Report

## NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 6. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets/(liabilities) relates to the following:

	As at 1 January 2015 RM'000	Recognised in profit or loss RM'000 (Note 23)	Exchange differences RM'000	As at 31 December 2015 RM'000
<b>Deferred tax liabilities:</b>				
Property, plant and equipment	(1,868)	(1,286)	-	(3,154)
Unrealised gain on foreign exchange	(41)	41	-	-
	<u>(1,909)</u>	<u>(1,245)</u>	<u>-</u>	<u>(3,154)</u>
<b>Deferred tax assets:</b>				
Property, plant and equipment	2	(1)	-	1
Unrealised loss on foreign exchange	-	265	-	265
	<u>2</u>	<u>264</u>	<u>-</u>	<u>266</u>
	<u>(1,907)</u>	<u>(981)</u>	<u>-</u>	<u>(2,888)</u>
<b>As at 31 December 2016</b>				
	As at 1 January 2016 RM'000	Recognised in profit or loss RM'000 (Note 23)	Exchange differences RM'000	As at 31 December 2016 RM'000
<b>Deferred tax liabilities:</b>				
Property, plant and equipment	(3,154)	(461)	-	(3,615)
Unrealised gain on foreign exchange	265	(265)	-	-
	<u>(2,889)</u>	<u>(726)</u>	<u>-</u>	<u>(3,615)</u>
<b>Deferred tax assets:</b>				
Property, plant and equipment	1	-	#	1
Unrealised loss on foreign exchange	-	(1)	-	(1)
	<u>1</u>	<u>(1)</u>	<u>#</u>	<u>-</u>
	<u>(2,888)</u>	<u>(727)</u>	<u>#</u>	<u>(3,615)</u>

# (RM63)

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****6. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**

Deferred tax assets/(liabilities) relates to the following:

	As at 1 January 2017 RM'000	Recognised in profit or loss RM'000 (Note 23)	Exchange differences RM'000	As at 31 December 2017 RM'000
<b>Deferred tax liabilities:</b>				
Property, plant and equipment	(3,615)	(698)	-	(4,313)
Unrealised gain on foreign exchange	-	(13)	-	(13)
	<u>(3,615)</u>	<u>(711)</u>	<u>-</u>	<u>(4,326)</u>
<b>Deferred tax assets:</b>				
Property, plant and equipment	1	-	*	1
Unrealised loss on foreign exchange	(1)	106	-	105
Unutilised tax losses	-	79	-	79
Unutilised capital allowances	-	356	-	356
	<u>-</u>	<u>541</u>	<u>-</u>	<u>541</u>
	<u>(3,615)</u>	<u>(170)</u>	<u>-</u>	<u>(3,785)</u>
	<b>As at 1 January 2018 RM'000</b>	<b>Recognised in profit or loss RM'000 (Note 23)</b>	<b>Exchange differences RM'000</b>	<b>As at 31 December 2018 RM'000</b>
<b>Deferred tax liabilities:</b>				
Property, plant and equipment	(4,313)	(646)	-	(4,959)
Unrealised gain on foreign exchange	(13)	(73)	-	(86)
	<u>(4,326)</u>	<u>(719)</u>	<u>-</u>	<u>(5,045)</u>
<b>Deferred tax assets:</b>				
Property, plant and equipment	1	(1)	-	-
Unrealised loss on foreign exchange	105	(105)	-	-
Unutilised tax losses	79	(36)	-	43
Unutilised capital allowances	356	(32)	-	324
	<u>541</u>	<u>(174)</u>	<u>-</u>	<u>367</u>
	<u>(3,785)</u>	<u>(893)</u>	<u>-</u>	<u>(4,678)</u>

\* (RM151)

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****6. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Presented after appropriate offsetting as follows:</b>				
Deferred tax assets	1	1	131	10
Deferred tax liabilities	(2,889)	(3,616)	(3,916)	(4,688)
	<u>(2,888)</u>	<u>(3,615)</u>	<u>(3,785)</u>	<u>(4,678)</u>

**7. OTHER INVESTMENT**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets at FVTPL</b>				
- Investment in unit trust, quoted in Malaysia	8,229	5,364	8,995	-
	<u>8,229</u>	<u>5,364</u>	<u>8,995</u>	<u>-</u>

**8. INVENTORIES**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>At the lower of cost and net realisable value:</b>				
Raw materials	4,177	3,259	4,443	5,192
Work-in-progress	988	1,293	1,111	848
Finished goods	14,660	14,456	14,187	17,331
Consumable goods	285	723	1,005	1,093
	<u>20,110</u>	<u>19,731</u>	<u>20,746</u>	<u>24,464</u>

- (a) The cost of inventories of the Group recognised as an expense RM42,123,629 (2017: RM38,873,172; 2016: RM39,270,070 and 2015: RM38,870,597).
- (b) The cost of inventories of the Group recognised as an expense in cost of sales during the financial year in respect of write-down of inventories to net realisable value was RM309,946 (2017: RM262,395; 2016: RM50,668 and 2015: RM173,796).
- (c) During the financial year ended 31 December 2018, the Group reversed the previous inventories written down value of RM22,152 (2017: RM156,117; 2016 and 2015: RM nil). The amount of reversal was included in cost of sales.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****9. TRADE AND OTHER RECEIVABLES**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Trade</b>				
Trade receivables	14,709	17,988	18,084	15,666
Less: Impairment for trade receivables	(12)	(25)	(116)	(25)
	14,697	17,963	17,968	15,641
<b>Non-trade</b>				
Other receivables	778	2,833	671	281
Deposits	59	64	72	123
Prepayments	201	231	249	932
Total trade and other receivables	15,735	21,091	18,960	16,977

## (a) Trade receivables

Trade receivables are non-interest bearing and normal credit terms offered by the Group ranges from 30 days to 90 days from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

The Group maintains an ageing analysis in respect of trade receivables only. The ageing analysis of the Group's trade receivables are as follows:

	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Neither past due nor impaired	13,674	16,705	12,753	11,067
Past due but not impaired	1,023	1,258	5,215	4,574
1-30 days past due but not impaired	657	854	3,605	2,567
31-60 days past due but not impaired	267	160	1,168	1,384
61-90 days past due but not impaired	76	175	272	454
91-120 days past due but not impaired	10	26	61	131
More than 121 days past due not impaired	13	43	109	38
Impaired individually	12	25	116	25
	14,709	17,988	18,084	15,666

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****9. TRADE AND OTHER RECEIVABLES (CONTINUED)**

## (a) Trade receivables (continued)

The movement in the impairment/expected credit losses of trade receivables is as follows:

	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
At 1 January	82	12	25	116
Charge for the financial year	2	25	91	-
Written off	(72)	(12)	-	(91)
At 31 December	<u>12</u>	<u>25</u>	<u>116</u>	<u>25</u>

The information about the credit exposures are disclosed in Note 26(b)(i).

**10. CASH AND CASH EQUIVALENTS**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Cash in hand	11	16	8	7
Cash at banks	7,475	10,538	10,600	13,228
Short-term deposits placed with licensed banks	800	-	2,300	-
	<u>8,286</u>	<u>10,554</u>	<u>12,908</u>	<u>13,235</u>

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise of the following:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Cash and bank balances	7,486	10,554	10,608	13,235
Short-term deposits placed with licensed banks	800	-	2,300	-
	<u>8,286</u>	<u>10,554</u>	<u>12,908</u>	<u>13,235</u>
Cash and cash equivalents under assets classified held for sale	-	-	27	-
	<u>8,286</u>	<u>10,554</u>	<u>12,935</u>	<u>13,235</u>
Less: Bank overdrafts	(928)	(1,193)	(1,234)	(91)
	<u>7,358</u>	<u>9,361</u>	<u>11,701</u>	<u>13,144</u>



**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****11. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE**

The non-current assets classified as held for sale on the Group's statements of financial position are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Leasehold land and building	-	-	1,171	-

**12. ASSETS/(LIABILITIES) OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATION****(a) Assets/(liabilities) of a disposal group classified as held for sale**

During the financial year ended 31 December 2017, the Board of Directors of MTC Tooling Systems Limited approved a plan to sell a subsidiary, MTC (Guangzhou) Tooling Systems Limited, which operates in Guangzhou, China. The assets and liabilities related to MTC (Guangzhou) Tooling Systems Limited, have been presented as held for sale.

**Assets of a disposal group classified as held for sale**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Property, plant and equipment	-	-	4	-
Trade and other receivables	-	-	12	-
Cash and bank balances	-	-	27	-
	-	-	43	-

**Liabilities of a disposal group classified as held for sale**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Other payables and accruals	-	-	(6)	-

In accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities held for sale of the above disposal group had been written down to its fair value less costs to sell. This is a non-recurring fair value which has been measured using observable inputs, being the prices for recent sales of similar businesses, and is therefore within Level 3 of the fair value hierarchy. The fair value has been measured by calculating the ratio of transaction price to annual revenue for the similar businesses and applying the average to the Group.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****12. ASSETS/(LIABILITIES) OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)****(b) Discontinued operation**

As disclosed in Note (a) above, the Group had classified its operations in Guangzhou, China during the financial year ended 31 December 2017 as discontinued operation. The segment was not a discontinued operation or classified as held for sale as at 31 December 2016 and the comparative statements of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

- (i) Analysis of the result of discontinued operation and the result recognised on the re-measurement of disposal group is as follows:

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	-
Expenses	(27)	(2)	*	-
Loss before tax of discontinued operation	(27)	(2)	*	-

\* (RM376)

**13. INVESTED EQUITY**

For the purpose of these combined financial statements, the invested equity at the end of the respective financial years is the aggregate of the share capital of the combining entities constituting the Group.

The invested equity constitutes the share capital of HPMT Holdings Berhad, HPMT Industries Sdn. Bhd., Herroz Sdn. Bhd., Pentagon Coating Technologies Sdn. Bhd., MTC Tooling Systems Limited and HPMT Deutschland GmbH.

The share capital of HPMT (Shenzhen) Limited and MTC (Guangzhou) Tooling Systems Limited had been eliminated against the investment in subsidiaries of MTC Tooling Systems Limited.

During the financial year 31 December 2017, the Group issued 500,002 new ordinary shares at a price of RM1 per ordinary share for the incorporation of Pentagon Coating Technologies Sdn. Bhd. and HPMT Holdings Berhad.

During the financial year 31 December 2018, Pentagon Coating Technologies Sdn. Bhd issued 1,000,000 new ordinary shares at a price of RM1 per ordinary share for working capital purpose.

The new ordinary shares issued during the financial year rank equally in all respects with the existing ordinary shares of the HPMT Holdings Berhad.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****14. OTHER RESERVES**

		← As at 31 December →			
		2015	2016	2017	2018
		RM'000	RM'000	RM'000	RM'000
Exchange reserve	(a)	247	(111)	(249)	352
PRC statutory reserve	(b)	94	107	141	175
		341	(4)	(108)	527

**(a) Exchange reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency as well as the foreign currency differences arising from monetary items which form part of the Group's net investment in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation or another currency.

**(b) PRC statutory reserve**

In accordance with relevant laws and regulations of the PRC, the subsidiary in the PRC is required to transfer 10% of its net profit for the financial year prepared in accordance with the accounting regulation of the PRC to the statutory reserve. The transfer will continue until the reserve balance reaches 50% of its registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of the said subsidiary, subject to the approval from the PRC authority, and are not available for dividend distribution to the shareholder of the said subsidiary.

**15. LOANS AND BORROWINGS**

		← As at 31 December →			
		2015	2016	2017	2018
		RM'000	RM'000	RM'000	RM'000
<b>Non-current:</b>					
Term loans	(a)	13,682	11,846	11,696	25,603
Finance lease liabilities	(b)	1,529	718	529	291
		15,211	12,564	12,225	25,894

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****15. LOANS AND BORROWINGS (CONTINUED)**

		← As at 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Current:</b>					
Term loans	(a)	5,057	5,390	6,700	8,111
Finance lease liabilities	(b)	1,091	583	299	314
Bankers' acceptance	(c)	5,535	2,263	2,026	4,648
Bank overdraft	(d)	928	1,193	1,234	91
Revolving credit	(e)	-	-	200	450
		12,611	9,429	10,459	13,614
Total bank borrowings		27,822	21,993	22,684	39,508
<b>Total loans and borrowings</b>					
Term loans	(a)	18,739	17,236	18,396	33,714
Finance lease liabilities	(b)	2,620	1,301	828	605
Bankers' acceptance	(c)	5,535	2,263	2,026	4,648
Bank overdraft	(d)	928	1,193	1,234	91
Revolving credit	(e)	-	-	200	450
		27,822	21,993	22,684	39,508

**(a) Term loans**

Term loan 1 of the Group of RM1,812,118 (2017: RM2,588,950; 2016: RM3,331,499; 2015: RM4,030,255) bears interest at a rate of effective cost of fund ("ECOF") plus 2% per annum and is repayable by monthly instalments of RM74,654 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the building as disclosed in Note 5;
- (ii) Corporate guarantee by the penultimate holding company of a commonly controlled entity; and
- (iii) Joint and several guarantee by the Group's directors.

Term loan 2 of the Group of RM nil (2017: RM502,913; 2016: RM1,507,811; 2015: RM2,499,980) bore interest at a rate of ECOF plus 1.75% per annum and was repayable by monthly instalments of RM83,334 until fully settled commencing from the day of first drawdown and was secured and supported as follows:

- (i) Legal charge over the building as disclosed in Note 5;
- (ii) Corporate guarantee by the penultimate holding company of a commonly controlled entity; and
- (iii) Joint and several guarantee by the Group's directors.

Term loan 3 of the Group of RM1,283,990 (2017: RM2,530,271; 2016: RM3,649,608; 2015: RM4,787,500) bears interest at a rate of ECOF plus 1.75% per annum and is repayable by monthly instalments of RM98,342 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the building as disclosed in Note 5;
- (ii) Corporate guarantee by the penultimate holding company of a commonly controlled entity; and
- (iii) Joint and several guarantee by the Group's directors.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

## Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****15. LOANS AND BORROWINGS (CONTINUED)****(a) Term loans (continued)**

Term loan 4 of the Group of RM2,538,636 (2017: RM3,911,894; 2016: RM5,089,920; 2015: RM5,535,887) bears interest at a rate of 2.6% per annum and is repayable by monthly instalments of RM75,654 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Corporate guarantee by the penultimate holding company of a commonly controlled entity; and
- (ii) Joint and several guarantee by the Group's directors.

Term loan 5 of the Group of RM1,787,355 (2017: RM2,540,128; 2016: RM3,166,342; 2015: RM nil) bears interest at a rate of 2.6% per annum and is repayable by monthly instalments of RM57,433 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Corporate guarantee by the immediate and penultimate holding company of a commonly controlled entity; and
- (ii) Joint and several guarantee by the Group's directors.

Term loan 6 of the Group RM1,699,296 (2017: RM2,238,606; 2016 and 2015: RM nil) bears interest at a rate of ECOF plus 1.5% per annum and is repayable by monthly instalments of RM41,351 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Corporate guarantee by the immediate and penultimate holding company of a commonly controlled entity; and
- (ii) Joint and several guarantee by the Group's directors.

Term loan 7 of the Group of RM313,899 (2017: RM403,773; 2016 and 2015: RM nil) bears interest at a rate of ECOF plus 1.5% per annum and is repayable by monthly instalments of RM6,830 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Corporate guarantee by the immediate and penultimate holding company of a commonly controlled entity; and
- (ii) Joint and several guarantee by the Group's directors.

Term loan 8 of the Group of RM nil (2017: RM nil; 2016: RM491,243 and 2015: RM1,885,752) bore interest at a rate of ECOF plus 1.5% per annum and was repayable by monthly instalments of RM41,351 until fully settled commencing from the day of first drawdown and was secured and supported as follows:

- (i) Corporate guarantee by the immediate and penultimate holding company of a commonly controlled entity; and
- (ii) Joint and several guarantee by the Group's directors.

Term loan 9 of the Group of RM2,964,985 (2017: RM3,678,608; 2016 and 2015: RM Nil) bears interest at a rate of ECOF plus 1.75% per annum and is repayable by monthly instalments of RM63,334 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the building of a related company;
- (ii) Legal charge over the asset financed under the term loan;
- (iii) Corporate guarantee by a related company and the immediate holding company of a commonly controlled entity; and
- (iv) Joint and several guarantee by the Group's directors and a director of the immediate and ultimate holding company of a commonly controlled entity.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****15. LOANS AND BORROWINGS (CONTINUED)****(a) Term loans (continued)**

Term loan 10 of the Group of RM639,208 (2017, 2016 and 2015: RM nil) bears interest at a rate of ECOF plus 1.75% per annum and is repayable by monthly instalments of RM12,035 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the building as disclosed in Note 5;
- (ii) Corporate guarantee by penultimate holding company; and
- (iii) Joint and several guarantee by the Group's directors.

Term loan 11 of the Group of RM4,742,795 (2017, 2016 and 2015: RM nil) bears interest at a rate of ECOF plus 1.75% per annum and is repayable by monthly instalments of RM83,705 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the building as disclosed in Note 5;
- (ii) Corporate guarantee by the penultimate holding company; and
- (iii) Joint and several guarantee by the Group's directors.

Term loan 12 of the Group of RM12,350,000 (2017, 2016 and 2015: RM nil) bears interest at a rate of ECOF plus 1.25% per annum and is repayable by monthly instalments of RM68,612 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the building as disclosed in Note 5;
- (ii) Corporate guarantee by the penultimate holding company; and
- (iii) Joint and several guarantee by the Group's directors.

Term loan 13 of the Group of RM3,582,096 (2017, 2016 and 2015: RM nil) bears interest at a rate of ECOF plus 1.25% per annum and is repayable by monthly instalments of RM80,218 until fully settled commencing from the day of first drawdown and is secured and supported as follows:

- (i) Legal charge over the asset financed under the term loan
- (ii) Corporate guarantee by the immediate and penultimate holding company; and
- (iii) Joint and several guarantee by the Group's directors.

**(b) Finance lease liabilities**

Certain motor vehicles and plant and machineries of the Group as disclosed in Note 5 are pledged for finance leases. Such leases do not have terms for renewal which would give the Group an option to purchase at nominal values at the end of the lease term. The average interest rate implicit in the leases is 2.08% to 3.12% (2017: 2.08% to 4.94%; 2016: 2.34% to 6.19%; 2015: 2.34% to 6.59%).

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****15. LOANS AND BORROWINGS (CONTINUED)****(b) Finance lease liabilities (continued)**

Future minimum lease payments under finance lease together with the present value of net minimum lease payments are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Minimum lease payments				
Not later than one year	1,215	654	334	354
Later than one year and not later than five years	1,717	812	597	326
	2,932	1,466	931	680
Less: Future finance charges	(312)	(165)	(103)	(75)
Present value of minimum lease payments	2,620	1,301	828	605
Present value of minimum lease payments payable:				
Not later than one year	1,091	583	299	314
Later than one year and not later than five years	1,529	718	529	291
	2,620	1,301	828	605
Less: Amount due within twelve months	(1,091)	(583)	(299)	(314)
Amount due after twelve months	1,529	718	529	291

**(c) Bankers' acceptances**

The bankers' acceptances are secured against the following:

- (i) Legal charge over the buildings;
- (ii) Corporate guarantee by penultimate holding company of a commonly controlled entity; and
- (iii) Joint and several guarantee by the Group's directors.

The bankers' acceptances bear interests at rates ranging from 3.15% to 5.15% (2017: 1.95% to 5.55%; 2016: 2.20% to 5.55%; 2015: 2.05% to 7.28%) per annum.

**(d) Bank overdrafts**

The bank overdrafts bear interest at the bank's base lending rate plus 1.50% per annum.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****15. LOANS AND BORROWINGS (CONTINUED)****(e) Revolving credit**

The revolving credit bears interest at the bank's ECOF plus 2.50% per annum.

The Group's loans and borrowings are secured and supported as follows:

- (i) Legal charge over the building of a related company;
- (ii) Legal charge over the asset financed under the term loan;
- (iii) Corporate guarantee by a related company and the immediate holding company; and
- (iv) Joint and several guarantee by Group's directors.

**16. DEFERRED INCOME**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Non-current:</b>				
Government grants:				
At 1 January	1,273	3,205	4,713	5,837
Received during the financial year	2,304	2,089	1,894	-
Released to profit or loss	(372)	(581)	(770)	(770)
Less: Amount to be released within twelve months	(372)	(581)	(770)	(770)
	2,833	4,132	5,067	4,297
<b>Current:</b>				
Government grants	372	581	770	770
	3,205	4,713	5,837	5,067

**Government grants relates to assets**

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.



**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****17. TRADE AND OTHER PAYABLES**

	Note	← As at 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Non-current:</b>					
<b>Non-trade</b>					
Other payables	(b)	554	578	517	-
		554	578	517	-
<b>Current:</b>					
<b>Trade</b>					
Trade payables	(a)	3,127	3,579	2,128	1,350
		3,127	3,579	2,128	1,350
<b>Non-trade</b>					
Other payables	(b)	3,125	6,647	8,237	7,092
Accruals		1,640	2,489	2,783	2,010
		4,765	9,136	11,020	9,102
<b>Total trade and other payables</b>		8,446	13,293	13,665	10,452

**(a) Trade payables**

Trade payables are non-interest bearing and the normal trade credit term granted to the Group ranges from 30 to 120 days.

Included in trade payables is an amount of RM nil (2017: RM21,536; 2016: RM42,196; 2015: RM nil) due to related companies.

**(b) Other payables**

Included in other payables is an amount of RM nil (2017: RM553,996; 2016: RM578,488; 2015: RM517,951) due to a director.

For explanations on the Group's liquidity risk management processes, refer to Note 26(b)(ii).

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****18. REVENUE**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Disaggregation of revenue:</b>				
Sale of goods	68,876	75,162	84,367	83,151
Services rendered	-	-	785	2,145
	68,876	75,162	85,152	85,296
<b>Timing of revenue recognition:</b>				
At a point in time	68,876	75,162	85,152	85,296

**19. OTHER INCOME**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
Net realised foreign exchange gain	314	1,416	-	-
Net unrealised foreign exchange gain	-	84	-	310
Gain on disposal of property, plant and equipment/ non-current assets held for sale	52	50	19	3,364
Interest income	258	161	308	436
Government grants	394	581	803	770
Rental income	109	88	14	-
Insurance claim	-	26	1	-
	1,127	2,406	1,145	4,880

**20. FINANCE COSTS**

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Interest expenses on:</b>				
- Term loans	684	751	643	750
- Finance lease liabilities	237	170	82	39
- Bankers' acceptances	168	130	98	190
- Bank overdrafts	15	49	66	22
- Commitment fees	22	20	21	23
- Revolving credit	-	-	-	14
	1,126	1,120	910	1,038

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****21. PROFIT BEFORE TAX**

Other than disclosed elsewhere in the financial statements, the following items have been charged in arriving at profit before tax:

	Note	← As at 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Auditors' remuneration:					
- Malaysian operations		28	32	55	56
- Overseas operations		79	57	273	271
Depreciation of property, plant and equipment	5	4,950	5,966	6,658	7,864
Property, plant and equipment written off	5	-	-	2	-
Employee benefits expense	22	14,761	17,780	21,310	23,662
Rental expenses		708	771	784	888
Impairment loss on trade receivables		2	25	91	-
Inventories written down		174	50	263	310
Net realised foreign exchange loss		-	-	468	393
Net unrealised foreign exchange loss		733	-	443	-

**22. EMPLOYEE BENEFITS EXPENSE**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Salaries, allowances and bonuses	11,257	13,656	16,344	18,571
Defined contribution plans	1,014	1,248	1,460	1,637
Other staff related expenses	2,490	2,876	3,506	3,454
	14,761	17,780	21,310	23,662
Included in employee benefits expenses are directors' remuneration:				
Salaries, allowances and bonuses	2,795	3,672	4,266	4,828
Defined contribution plans	187	249	238	301
Other staff related expenses	149	157	162	172
	3,131	4,078	4,666	5,301

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****23. INCOME TAX EXPENSE**

The major components of income tax expense for the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Statements of comprehensive income</b>				
<b>Continuing operations</b>				
<b>Current income tax:</b>				
Taxation in Malaysia				
- Current income tax charge	2,407	2,159	2,853	1,287
- Adjustment in respect of prior years	(829)	259	227	(441)
	1,578	2,418	3,080	846
Taxation outside Malaysia				
- Current income tax charge	432	350	336	203
- Adjustment in respect of prior years	(10)	(11)	(11)	(15)
Total current income tax	2,000	2,757	3,405	1,034
<b>Deferred tax:</b>				
Origination of temporary differences	857	918	384	1,164
Adjustment in respect of prior years	208	(191)	(214)	(271)
Effect of changes in tax rates	(84)	-	-	-
	981	727	170	893
Income tax expense recognised in profit or loss	2,981	3,484	3,575	1,927

Domestic income tax is calculated at the Malaysian statutory income tax rate of 24% (2017 and 2016: 24%; 2015: 25%) of the estimated assessable profit for the financial year.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****23. INCOME TAX EXPENSE (CONTINUED)**

The reconciliation from the tax amount at the statutory income tax rate to the Group's tax expenses are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Profit before tax from continuing operations	14,369	16,617	18,465	15,679
Loss before tax from discontinued operation	(27)	(2)	*	-
Accounting profit before tax	<u>14,342</u>	<u>16,615</u>	<u>18,465</u>	<u>15,679</u>
Tax at Malaysian statutory income tax rate of 24% (2017 and 2016: 24%; 2015: 25%)	3,586	3,988	4,432	3,763
Different tax rates in other countries	(58)	(9)	37	(393)
Effect of changes in tax rate	(84)	-	-	-
Adjustments:				
- Income not subject to tax	(158)	(448)	(246)	(495)
- Non-deductible expenses	1,719	609	438	961
- Tax incentives	(1,394)	(715)	(1,088)	(1,217)
- Deferred tax assets not recognised	1	2	-	35
- Adjustment in respect of current income tax of prior years	(839)	248	216	(456)
- Adjustment in respect of deferred tax of prior years	208	(191)	(214)	(271)
Income tax expense	<u>2,981</u>	<u>3,484</u>	<u>3,575</u>	<u>1,927</u>

\* (RM376)

A commonly controlled entity of HPMT Holdings Berhad was granted reinvestment allowance by the Ministry of International Trade and Industry Malaysia under the Promotion of Investment Act, 1986 for 15 consecutive years of assessment from the year of assessment in which capital expenditure was first incurred expiring in the year of assessment 2026. By virtue of this reinvestment allowance, 60% of the statutory business income up to 70% of statutory income of each year of assessment during the reinvestment allowance period is exempted from income tax.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****24. OTHER COMPREHENSIVE INCOME/(LOSS)**

	Exchange reserve RM'000	Non-controlling interests RM'000	Total (Gross) RM'000
<b>2015</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations	247	238	485
<b>2016</b>			
Exchange differences on translation of foreign operations	(358)	(343)	(701)
<b>2017</b>			
Exchange differences on translation of foreign operations	(138)	(131)	(269)
<b>2018</b>			
Exchange differences on translation of foreign operations	601	571	1,172

**25. DIVIDENDS**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000

**Recognised during the financial years:**

Dividends on ordinary shares:

- First single-tier dividend for the FYE

31 December 2015: RM1.20 per

ordinary share paid on 30 May 2015

3,000	-	-	-
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- Second single-tier dividend for the FYE

31 December 2015: RM0.20 per

ordinary share paid on 30

November 2015

500	-	-	-
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- Third single-tier dividend for the FYE

31 December 2015: RM0.077 per

ordinary share paid on 3

February 2016

74	-	-	-
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Balance carried forward

3,574	-	-	-
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**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****25. DIVIDENDS (CONTINUED)**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Balance brought forward	3,574	-	-	-
- First single-tier dividend for the FYE 31 December 2016: RM2.70 per ordinary share paid on 30 June 2016	-	6,750	-	-
- Second single-tier dividend for the FYE 31 December 2016: RM0.50 per ordinary share paid on 30 September 2016	-	1,250	-	-
- Third single-tier dividend for the FYE 31 December 2016: RM0.10 per ordinary share paid on 15 December 2016	-	250	-	-
- First single-tier dividend for the FYE 31 December 2017: RM1.00 per ordinary share paid on 31 March 2017	-	-	2,500	-
- Second single-tier dividend for the FYE 31 December 2017: RM1.20 per ordinary share paid on 30 September 2017	-	-	3,000	-
- First single-tier dividend for the FYE 31 December 2018: RM2.40 per ordinary share paid on 31 March 2018	-	-	-	6,000
- Second single-tier dividend for the FYE 31 December 2018: RM6.50 per ordinary share paid on 14 May 2018	-	-	-	3,090
	<u>3,574</u>	<u>8,250</u>	<u>5,500</u>	<u>9,090</u>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS****(a) Categories of financial instruments**

The following table analyses the financial instruments in the statement of financial position by the classes of financial instruments to which they are assigned:

From 1 January 2018:

- (i) Amortised cost
- (ii) Designated as fair value through profit or loss ("DFVPL")

On or before 31 December 2017:

- (i) Loans and receivables ("L&R")
- (ii) Other financial liabilities ("FL")
- (iii) FVTPL – Designated as held for trading ("HFT")

	Note	Carrying amount RM'000	L&R/(FL) RM'000	FVTPL- HFT RM'000
<b>At 31 December 2015</b>				
<b>Financial assets</b>				
Trade and other receivables less prepayments	9	15,534	15,534	-
Other investment	7	8,229	-	8,229
Cash and short-term deposits	10	8,286	8,286	-
		32,049	23,820	8,229
<b>Financial liabilities</b>				
Trade and other payables	17	(8,446)	(8,446)	-
Loans and borrowings	15	(27,822)	(27,822)	-
		(36,268)	(36,268)	-
<b>At 31 December 2016</b>				
<b>Financial assets</b>				
Trade and other receivables less prepayments	9	20,860	20,860	-
Other investment	7	5,364	-	5,364
Cash and short-term deposits	10	10,554	10,554	-
		36,778	31,414	5,364
<b>Financial liabilities</b>				
Trade and other payables	17	(13,293)	(13,293)	-
Loans and borrowings	15	(21,993)	(21,993)	-
		(35,286)	(35,286)	-



**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(a) Categories of financial instruments (continued)**

		Carrying amount RM'000	L&R/(FL) RM'000	FVTPL- HFT RM'000
<b>At 31 December 2017</b>				
<b>Financial assets</b>				
Trade and other receivables less prepayments	<b>9</b>	18,711	18,711	-
Other investment	<b>7</b>	8,995	-	8,995
Cash and short-term deposits	<b>10</b>	12,908	12,908	-
		<u>40,614</u>	<u>31,619</u>	<u>8,995</u>
<b>Financial liabilities</b>				
Trade and other payables	<b>17</b>	(13,665)	(13,665)	-
Loans and borrowings	<b>15</b>	(22,684)	(22,684)	-
		<u>(36,349)</u>	<u>(36,349)</u>	<u>-</u>
		Carrying amount RM'000	Amortised cost RM'000	DFVPL RM'000
<b>At 31 December 2018</b>				
<b>Financial assets</b>				
Trade and other receivables less prepayments	<b>9</b>	16,045	16,045	-
Other investment	<b>7</b>	-	-	-
Cash and short-term deposits	<b>10</b>	13,235	13,235	-
		<u>29,280</u>	<u>29,280</u>	<u>-</u>
<b>Financial liabilities</b>				
Trade and other payables	<b>17</b>	(10,452)	(10,452)	-
Loans and borrowings	<b>15</b>	(39,508)	(39,508)	-
		<u>(49,960)</u>	<u>(49,960)</u>	<u>-</u>

**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**  
Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management**

The Group's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group's overall financial risk management objective is to optimise value for its shareholders. The Group uses derivative financial instruments, such as, foreign exchange contracts to hedge certain exposures. The Group does not trade in financial instruments.

The Board of Directors of the Group reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management.

**(i) Credit risk**

Credit risk is the risk of financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

**Trade receivables**

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables is represented by their carrying amounts in the statements of financial position.

The carrying amounts of trade receivables are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group considers any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

**Credit risk concentration profile**

At the end of the financial reporting period, the Group has a significant concentration of credit risk in the form of three (3) (2017, 2016 and 2015: three (3)) trade receivables, representing approximately 22% (2017: 29%; 2016: 21% and 2015: 21%) of the Group's total trade receivables.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(i) Credit risk (continued)**

The Group applies the simplified approach to providing for expected credit losses prescribed by MFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix are as follows:

	Trade receivables						Total RM'000
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	> 120 days		
	Current RM'000	past due RM'000	past due RM'000	past due RM'000	past due RM'000	past due RM'000	
<b>At 31 December 2018</b>							
Expected credit loss rate	0%	0%	0%	0%	0%	31%	31%
Gross carrying amount at default	11,067	2,567	1,384	454	131	38	15,641
Expected credit loss	-	-	-	-	-	- *	-

\* The expected credit loss is not recognised as it is not significant to the financial statement as a whole.

**Other receivables and other financial assets**

For other receivables and other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's maximum exposure to credit risk arising from other receivables and other financial assets is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(i) Credit risk (continued)****Other receivables and other financial assets (continued)**

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 120 days past due in making a contractual payment.

**15. ACCOUNTANTS' REPORT**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(i) Credit risk (continued)****Other receivables and other financial assets (continued)**

Some intercompany loans between entities within the Group are repayable on demand. For loans that are repayable on demand, expected credit losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower does not have sufficient highly liquid resources when the loan is demanded, the Group will consider the expected manner of recovery and recovery period of the intercompany loan.

Refer to Note 3.10(a) for the Group's other accounting policies for impairment of financial assets.

**Financial guarantee contracts**

The Group is exposed to credit risk in relation to financial guarantees given to banks in respect of loans granted to certain related companies. The Group monitors the results of the related company and their repayment on an on-going basis. The maximum exposure to credit risks amounts to RM10,680,000 (2017: RM22,058,000) representing the maximum amount the Group could pay if the guarantee is called on as disclosed in Note 26(b)(ii). As at the reporting date, there was no indication that the related party would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

**(ii) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations when they fall due. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities between financial assets and liabilities. The Group's exposure to liquidity risk arises principally from trade and other payables and loans and borrowings.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group uses a series of processes to obtain maximum benefits from its flow of funds, such that they are efficiently managed to maximise income from investment and minimise cost on borrowed funds. The Group's treasury department also ensure that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(ii) Liquidity risk (continued)**Maturity analysis

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date is based on contractual undiscounted repayment obligations are as follows:

	Carrying amount RM'000	Contractual cash flows		Total RM'000
		On demand or within one year RM'000	Between one and five years RM'000	
<b>At 31 December 2015</b>				
Trade and other payables	8,446	7,892	554	8,446
Term loans	18,739	5,712	15,330	21,042
Finance lease liabilities	2,620	1,215	1,717	2,932
Bankers' acceptances	5,535	5,535	-	5,535
Bank overdraft	928	928	-	928
Financial guarantee contracts	-	17,258	-	17,258
	<b>36,268</b>	<b>38,540</b>	<b>17,601</b>	<b>56,141</b>
<b>At 31 December 2016</b>				
Trade and other payables	13,293	12,715	578	13,293
Term loans	17,236	5,550	12,736	18,286
Finance lease liabilities	1,301	654	812	1,466
Bankers' acceptances	2,263	2,263	-	2,263
Bank overdraft	1,193	1,193	-	1,193
Financial guarantee contracts	-	15,558	-	15,558
	<b>35,286</b>	<b>37,933</b>	<b>14,126</b>	<b>52,059</b>
<b>At 31 December 2017</b>				
Trade and other payables	13,665	13,148	517	13,665
Term loans	18,396	6,235	13,542	19,777
Finance lease liabilities	828	334	597	931
Bankers' acceptances	2,026	2,026	-	2,026
Bank overdrafts	1,234	1,234	-	1,234
Revolving credit	200	200	-	200
Financial guarantee contracts	-	22,058	-	22,058
	<b>36,349</b>	<b>45,235</b>	<b>14,656</b>	<b>59,891</b>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(ii) Liquidity risk (continued)**Maturity analysis (continued)

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date is based on contractual undiscounted repayment obligations are as follows: (continued)

	Carrying amount RM'000	Contractual cash flows			Total RM'000
		On demand or within one year RM'000	Between one and five years RM'000	More than 5 years RM'000	
<b>At 31 December 2018</b>					
Trade and other payables	10,452	10,452	-	-	10,452
Term loans	33,714	9,425	22,229	9,539	41,193
Finance lease liabilities	605	353	327	-	680
Bankers' acceptances	4,648	4,648	-	-	4,648
Bank overdrafts	91	91	-	-	91
Revolving credit	450	450	-	-	450
Financial guarantee contracts	-	10,680	-	-	10,680
	49,960	36,099	22,556	9,539	68,194

**(iii) Foreign currency risk**

Foreign currency risk is the risk of fluctuation in fair value or future cash flows of a financial instrument as a result of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when sales, purchases and borrowings that are denominated in a foreign currency) and the Group's net investment in foreign subsidiaries.

The foreign currencies in which these transactions are denominated are mainly United States Dollar ("USD"), Euro ("EUR"), Singapore Dollar ("SGD"), Hong Kong Dollar ("HKD"), Chinese Yuan ("CNY") and Swiss Franc ("CHF").

## 15. ACCOUNTANTS' REPORT

HPMT HOLDINGS BERHAD  
Accountants' Report

## NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

## 26. FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Financial risk management (continued)

## (iii) Foreign currency risk (continued)

Management has set up a policy that requires all companies within the Group to manage their treasury activities and exposures. The Group's policy is to hedge certain material foreign currency exposures arising from its transactions and balances using derivative instruments that have maturity periods that match the corresponding maturity periods of the hedged items. In addition, the Group also takes advantage of any natural effects of its foreign currencies revenues and expenses by maintaining current accounts in foreign currencies.

The Group's unhedged financial assets and liabilities that are not denominated in their functional currencies are as follows:

← As at 31 December →			
2015	2016	2017	2018
RM'000	RM'000	RM'000	RM'000

Financial assets and liabilities not held in functional currencies:

**Trade receivables**

USD	4,546	5,095	4,196	3,629
EUR	5,839	6,847	7,300	5,827
SGD	137	187	167	213
CNY	142	103	482	882
	10,664	12,232	12,145	10,551

The Group uses forward exchange contracts to manage foreign currency exposures arising from the Group's receivables denominated in currencies other than the functional currency of the Group. All of the forward exchange contracts have maturities of less than one year after the end of the reporting period. When necessary, the forward contracts are rolled over at maturity.

The notional principal amounts of the Groups outstanding forward contracts are as follows:

← As at 31 December →				
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
EUR	3,544	6,040	2,440	2,003



**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iii) Foreign currency risk (continued)**

The Group's unhedged financial assets and liabilities that are not denominated in their functional currencies are as follows:

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b><u>Other receivables</u></b>				
CNY	15	16	-	-
<b><u>Cash and bank balances</u></b>				
USD	2,079	2,246	2,589	2,278
EUR	2,325	1,206	2,200	4,163
SGD	1	4	3	-
CNY	47	65	320	-
	4,452	3,521	5,112	6,441
<b><u>Trade payables</u></b>				
USD	2,361	2,979	1,213	491
EUR	200	370	445	254
SGD	48	22	2	7
CNY	283	5	84	-
	2,892	3,376	1,744	752
<b><u>Other payables</u></b>				
USD	218	95	2	-
EUR	92	273	2,576	5,010
CHF	49	1,457	2,643	1,173
	359	1,825	5,221	6,183
<b><u>Loan and borrowings</u></b>				
EUR	10,323	11,906	11,625	16,587

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iii) Foreign currency risk (continued)**Sensitivity analysis for foreign currency risk

The Group's principal foreign currency exposure relates mainly to USD, EUR, SGD, HKD, CNY and CHF.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR, SGD, HKD, CNY and CHF, with all other variables held constant on the Group's total equity and profit for the financial year.

	Change in rate	Effect on profit for the financial year RM'000
<b>31 December 2015</b>		
USD	5%	152
	-5%	(152)
EUR	5%	(92)
	-5%	92
SGD	5%	3
	-5%	(3)
CNY	5%	(3)
	-5%	3
CHF	5%	(2)
	-5%	2

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iii) Foreign currency risk (continued)**Sensitivity analysis for foreign currency risk (continued)

	<b>Change in rate</b>	<b>Effect on profit for the financial year RM'000</b>
<b>31 December 2016</b>		
USD	5%	162
	-5%	(162)
EUR	5%	(171)
	-5%	171
SGD	5%	6
	-5%	(6)
CNY	5%	7
	-5%	(7)
CHF	5%	(55)
	-5%	55
<b>31 December 2017</b>		
USD	5%	212
	-5%	(212)
EUR	5%	(196)
	-5%	196
SGD	5%	6
	-5%	(6)
CNY	5%	27
	-5%	(27)
CHF	5%	(100)
	-5%	100

**15. ACCOUNTANTS' REPORT**

**HPMT HOLDINGS BERHAD**  
Accountants' Report

**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iii) Foreign currency risk (continued)**

Sensitivity analysis for foreign currency risk (continued)

	<b>Change in rate</b>	<b>Effect on profit for the financial year RM'000</b>
<b>31 December 2018</b>		
USD	5%	206
	-5%	(206)
EUR	5%	(451)
	-5%	451
SGD	5%	8
	-5%	(8)
CNY	5%	34
	-5%	(34)
CHF	5%	(45)
	-5%	45

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(b) Financial risk management (continued)****(iv) Interest rate risk**

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their long-term loans and borrowings with floating interest rates.

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial year.

	<b>Change in basis points</b>	<b>Effect on net profit for the financial year RM'000</b>
<b>Group</b>		
<b>31 December 2015</b>		
Term loan	+ 50	(70)
	- 50	70
		<hr/>
<b>31 December 2016</b>		
Term loan	+ 50	(65)
	- 50	65
		<hr/>
<b>31 December 2017</b>		
Term loan	+ 50	(70)
	- 50	70
		<hr/>
<b>31 December 2018</b>		
Term loan	+ 50	(128)
	- 50	128
		<hr/>

During the financial year ended 31 December 2017, the Group entered into an interest rate swap transaction to manage floating interest rates arising from a term loan.

The notional amounts of the Group's outstanding interest rate swap transaction is RM1,786,627 (2017: RM2,530,627; 2016 and 2015: RM nil).

**15. ACCOUNTANTS' REPORT**

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**HPMT HOLDINGS BERHAD**  
Accountants' Report

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****26. FINANCIAL INSTRUMENTS (CONTINUED)****(c) Fair value measurement**

The carrying amounts of cash and short-term deposits, receivables and payables and short-term borrowings are reasonably approximate to their fair value due to relatively short-term nature of these financial instruments.

Other long-term financial assets and liabilities are reasonable approximation of fair value because they are floating rate instruments which are re-priced to market interest rates or estimated by discounting future cash flows using current lending rates for similar types of arrangements.

It is not practical to determine the fair value of finance lease liabilities which are at fixed rate due to lack of market information of comparable instruments with similar characteristic and risk profile.

**Policy on transfer between levels**

The fair value of asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

There was no transfers between the fair value measurement hierarchy during the financial year.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- (i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (ii) Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Transfer between Level 1 and Level 2**

There has been no transfer between Level 1 and Level 2 fair values during the financial year.

- (iii) Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****27. COMMITMENTS**

HPMT Holdings Berhad have made commitments for the following capital expenditure:

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
- Property, plant and equipment	-	-	7,166	235

**28. RELATED PARTIES****(a) Identification of related parties**

Parties are considered to be related to the Group if HPMT Holdings Berhad has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa, or where HPMT Holdings Berhad and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the HPMT Holdings Berhad include:

- (i) HPMT Holdings Berhad's penultimate and ultimate holding companies;
- (ii) Entities in which directors have substantial financial interests; and
- (iii) Key management personnel of the Group, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities or indirectly.

**(b) Significant related party transactions**

Significant related party transactions other than disclosed elsewhere in the financial statements are as follows:

	← As at 31 December →			
	2015	2016	2017	2018
	RM'000	RM'000	RM'000	RM'000
<b>Sales of goods</b>				
- Related companies	2,415	879	1,417	561
<b>Purchase of goods</b>				
- Related companies	324	46	11	-

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****28. RELATED PARTIES (CONTINUED)****(b) Significant related party transactions (continued)**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
<b>Rental expenses</b>				
- Related company	430	459	459	552
<b>Rental income</b>				
- Related companies	21	-	-	-
<b>Utilities paid</b>				
- Related company	-	-	11	11
<b>Purchase of property, plant and equipment</b>				
- Related company	-	-	-	19,000
<b>Sale of property, plant and equipment</b>				
- Related company	-	-	-	4,532

**(c) Compensation of key management personnel**

	← As at 31 December →			
	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Salaries, allowances and bonuses	4,040	5,253	6,013	6,058
Defined contribution plan	294	390	390	449
Other staff related benefits	179	165	190	210
	<u>4,513</u>	<u>5,808</u>	<u>6,593</u>	<u>6,717</u>



**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****29. 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 shareholder value. The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years under review.

The Group monitors capital using gearing ratio. The gearing ratio is calculated as total debts divided by total equity of the Group. The gearing ratio as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 are as follows:

	Note	← As at 31 December →			
		2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Trade and other payables	17	8,446	13,293	13,665	10,452
Loans and borrowings	15	27,822	21,993	22,684	39,508
Total debts		36,268	35,286	36,349	49,960
Total equity		53,371	57,551	67,172	74,006
Gearing ratio		0.68	0.61	0.54	0.68

There were no changes in the Group's approach to capital management during the financial years under review.

A commonly controlled entity of HPMT Holdings Berhad is required to maintain a tangible net worth of not less than RM15,000,000 at all times and shall maintain a gearing ratio not exceeding 1.5 times to comply with bank covenants.

**30. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

- (a) On 24 April 2018, the directors of a commonly controlled entity approved to sell two (2) units of offices, located in Kowloon, Hong Kong for a total consideration of RM4,557,969. The said offices have been presented non-current assets as held for sale and the sale was completed on 17 May 2018. Further details are disclosed in Note 11.
- (b) On 28 March 2018, the directors of a commonly controlled entity approved a plan to sell a subsidiary, MTC (Guangzhou) Tooling Systems Limited, which operates in People's Republic of China. The assets and liabilities related to MTC (Guangzhou) Tooling Systems Limited have been presented as held for sale and the sale was completed on 4 May 2018. Further details are disclosed in Note 12.
- (c) On 1 June 2018, the directors of a commonly controlled entity entered into a sale and purchase agreement to acquire a factory building located in Shah Alam, Malaysia for a total consideration of RM19,000,000, the acquisition was completed on 31 December 2018.
- (d) On 28 February 2018, a commonly controlled entity issued additional RM1,000,000 new ordinary share at RM1 per ordinary share.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**

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**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****30. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)**

- (e) On 25 May 2018, HPMT Holdings Berhad entered into conditional share sale agreement to acquire the entire equity interests in HPMT Industries Sdn. Bhd. for a purchase consideration of RM51,563,000 which will be wholly satisfied by the issuance of 206,251,998 shares in HPMT Holdings Berhad at RM0.25 per share.

The purchase consideration of RM51,563,000 was arrived at on a willing-buyer willing-seller basis based on the adjusted net assets of commonly controlled entity as at 31 December 2017.

- (f) On 25 May 2018, HPMT Holdings Berhad entered into conditional share sale agreement to acquire the entire equity interests in Herroz Sdn. Bhd. for a purchase consideration of RM4,828,000 which will be wholly satisfied by the issuance of 19,312,000 shares in HPMT Holdings Berhad at RM0.25 per share.

The purchase consideration of RM4,828,000 was arrived at on a willing-buyer willing-seller basis based on the audited net assets of commonly controlled entity as at 31 December 2017.

- (g) On 25 May 2018, HPMT Holdings Berhad entered into conditional share sale agreement to acquire the entire equity interests in MTC Tooling Systems Limited for a purchase consideration of RM3,834,000 which will be wholly satisfied by the issuance of 15,336,000 shares in HPMT Holdings Berhad at RM0.25 per share.

The purchase consideration of RM3,834,000 was arrived at on a willing-buyer willing-seller basis based on the adjusted net assets of commonly controlled entity as at 31 December 2017.

- (h) On 25 May 2018, HPMT Holdings Berhad entered into conditional share sale agreement to acquire the entire equity interests in HPMT Deutschland GmbH for a purchase consideration of RM2,208,000 which will be wholly satisfied by the issuance of 8,832,000 shares in HPMT Holdings Berhad at RM0.25 per share.

The purchase consideration of RM2,208,000 was arrived at on a willing-buyer willing-seller basis based on the audited net assets of commonly controlled entity as at 31 December 2017.

- (i) On 25 May 2018, HPMT Holdings Berhad entered into conditional share sale agreement to acquire 75% equity interests in Pentagon Coating Technologies Sdn. Bhd. for a purchase consideration of RM801,000 which will be wholly satisfied by the issuance of 3,204,000 shares in HPMT Holdings Berhad at RM0.25 per share.

The purchase consideration of RM801,000 was arrived at on a willing-buyer willing-seller basis based on the adjusted net assets of commonly controlled entity as at 31 December 2017.

**31. SIGNIFICANT EVENTS SUBSEQUENT TO THE FINANCIAL YEAR**

- (a) The acquisition of HPMT Industries Sdn. Bhd., Herroz Sdn. Bhd., Pentagon Coating Technologies Sdn. Bhd. and HPMT Deutschland GmbH were completed on 29 March 2019.
- (b) The acquisition of MTC Tooling Systems Limited was completed on 20 March 2019.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****32. SEGMENT INFORMATION**

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by directors for the purpose of making decisions about resource allocation and performance assessment.

The three reportable operating segments are as follows:

<b>Segments</b>	<b>Product and services</b>
Manufacturing	Manufacturing and distribution of cutting tools
Trading	Trading of third party cutting tools, supporting equipment and accessories for metalworking
Coating	Provision of PVD coating services

Inter-segment pricing is determined on negotiated basis.

	<b>Note</b>	<b>Manufacturing RM'000</b>	<b>Trading RM'000</b>	<b>Adjustment and eliminations RM'000</b>	<b>Total RM'000</b>
<b>31 December 2015</b>					
<b>Revenue:</b>					
Revenue from					
external customers		65,360	3,516	-	68,876
inter-segment revenue	<b>A</b>	23,894	-	(23,894)	-
		<u>89,254</u>	<u>3,516</u>	<u>(23,894)</u>	<u>68,876</u>
<b>Results:</b>					
<i>Included in the measure of segment profit are:</i>					
Interest income		256	-	-	256
Interest expenses		(1,098)	-	-	(1,098)
Depreciation		(4,794)	-	-	(4,794)
Rental expenses		(701)	-	23	(678)
Employee benefits expense		(13,375)	-	-	(13,375)
Gain on disposal of property, plant and equipment		52	-	-	52
Segment profit		<u>19,694</u>	<u>-</u>	<u>-</u>	<u>19,694</u>
<b>Assets:</b>					
Additions to non-current assets		18,951	-	-	18,951
Segment assets		<u>95,877</u>	<u>-</u>	<u>-</u>	<u>95,877</u>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****32. SEGMENT INFORMATION (CONTINUED)**

	Note	Manufacturing RM'000	Trading RM'000	Adjustment and eliminations RM'000	Total RM'000
<b>31 December 2016</b>					
<b>Revenue:</b>					
Revenue from external customers		71,688	3,474	-	75,162
Inter-segment revenue	<b>A</b>	27,573	-	(27,573)	-
		<u>99,261</u>	<u>3,474</u>	<u>(27,573)</u>	<u>75,162</u>
<b>Results:</b>					
<i>Included in the measure of segment profit are:</i>					
Interest income		156	-	-	156
Interest expenses		(1,089)	-	-	(1,089)
Depreciation		(5,810)	-	-	(5,810)
Rental expenses		(764)	-	23	(741)
Impairment loss on trade receivables		(25)	-	-	(25)
Employee benefits expense		(15,715)	-	-	(15,715)
Gain on disposal of property, plant and equipment		50	-	-	50
Segment profit		<u>20,600</u>	<u>-</u>	<u>-</u>	<u>20,600</u>
<b>Assets:</b>					
Additions to non-current assets		6,399	-	-	6,399
Segment assets		<u>101,257</u>	<u>-</u>	<u>-</u>	<u>101,257</u>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****32. SEGMENT INFORMATION (CONTINUED)**

	Note	Manufacturing RM'000	Trading RM'000	Coating RM'000	Adjustment and eliminations RM'000	Total RM'000
<b>31 December 2017</b>						
<b>Revenue:</b>						
Revenue from						
external customers		80,116	4,251	785	-	85,152
Inter-segment revenue	<b>A</b>	28,449	-	111	(28,560)	-
		<u>108,565</u>	<u>4,251</u>	<u>896</u>	<u>(28,560)</u>	<u>85,152</u>
<b>Results:</b>						
<i>Included in the measure of segment profit are:</i>						
Interest income		300	-	-	-	300
Interest expenses		(801)	-	(81)	-	(882)
Depreciation		(6,203)	-	(263)	-	(6,466)
Rental expenses		(778)	-	(49)	72	(755)
Impairment loss on						
trade receivables		(91)	-	-	-	(91)
Employee benefits expense		(18,959)	-	(432)	-	(19,391)
Segment profit		<u>27,787</u>	<u>-</u>	<u>(1,353)</u>	<u>-</u>	<u>26,434</u>
<b>Assets:</b>						
Additions to non-current						
assets		13,282	-	4,590	-	17,872
Segment assets		<u>108,565</u>	<u>-</u>	<u>4,925</u>	<u>-</u>	<u>113,490</u>

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****32. SEGMENT INFORMATION (CONTINUED)**

	Note	Manufacturing RM'000	Trading RM'000	Coating RM'000	Adjustment and eliminations RM'000	Total RM'000
<b>31 December 2018</b>						
<b>Revenue:</b>						
Revenue from						
external customers		77,630	5,522	2,144	-	85,296
Inter-segment revenue	A	20,902	41	421	(21,364)	-
		<u>98,532</u>	<u>5,563</u>	<u>2,565</u>	<u>(21,364)</u>	<u>85,296</u>
<b>Results:</b>						
<i>Included in the measure of segment profit are:</i>						
Interest income		416	-	1	-	417
Interest expenses		(825)	-	(212)	-	(1,037)
Depreciation		(7,245)	-	(457)	-	(7,702)
Rental expenses		(872)	-	(84)	84	(872)
Impairment loss on trade receivables		-	-	-	-	-
Employee benefits expense		(20,649)	-	(795)	-	(21,444)
Segment profit		<u>21,668</u>	<u>-</u>	<u>537</u>	<u>-</u>	<u>22,205</u>
<b>Assets:</b>						
Additions to non-current assets		34,370	-	273	-	34,643
Segment assets		<u>128,840</u>	<u>-</u>	<u>5,113</u>	<u>-</u>	<u>133,953</u>

Reconciliation of reportable segment revenue, assets, liabilities and other material items are as follows:

**A Inter-segment revenue**

Inter-segment revenues are eliminated on combination.

**15. ACCOUNTANTS' REPORT****HPMT HOLDINGS BERHAD**  
Accountants' Report**NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)****32. SEGMENT INFORMATION (CONTINUED)**Geographical information

Revenue and non-current assets information based on the geographical location of customers are as follows:

	Revenue RM'000	Non-current assets <sup>(1)</sup> RM'000
<b>31 December 2015</b>		
Malaysia	8,864	41,826
Europe	32,518	51
Asia (excluding Malaysia)	27,233	1,494
Others	261	-
	68,876	43,371
<b>31 December 2016</b>		
Malaysia	11,176	42,330
Europe	34,394	31
Asia (excluding Malaysia)	29,348	1,491
Others	244	-
	75,162	43,852
<b>31 December 2017</b>		
Malaysia	13,532	50,090
Europe	41,663	37
Asia (excluding Malaysia)	29,618	107
Others	339	-
	85,152	50,234
<b>31 December 2018</b>		
Malaysia	16,970	76,886
Europe	43,248	51
Asia (excluding Malaysia)	24,693	71
Others	385	-
	85,296	77,008

(1) Non-current assets excluded deferred tax assets and other investment.

Information about major customers

For the manufacturing segment, revenue from two customers represented approximately RM16,841,000 (2017: RM16,280,000; 2016: RM12,140,000 and 2015: RM11,309,000) of the Group's total revenue.

## 16. STATUTORY AND OTHER GENERAL INFORMATION

### 16.1 SHARE CAPITAL

- (i) As at the date of this Prospectus, our Company has only 1 class of shares, namely ordinary shares, all of which rank equally with one another;
- (ii) None of the share capital of our Company is under option, or agreed conditionally or unconditionally to be put under option as at the date of this Prospectus;
- (iii) No securities will be allotted, issued or offered on the basis of this Prospectus later than 6 months after the date of this Prospectus;
- (iv) Save for the new Shares issued and to be issued pursuant to the Acquisitions and Public Issue as disclosed in Sections 4.3.1 and 6.3 of this Prospectus, no shares, stocks or debentures of our Company have been issued or proposed to be issued as fully or partly paid-up in cash or otherwise, within the 2 years preceding the date of this Prospectus;
- (v) Save for the IPO Shares reserved for Eligible Persons as disclosed in Section 4.3.1(ii) of this Prospectus, there is currently no other scheme involving our Directors or employees in the share capital of our Company;
- (vi) Our Company and Subsidiaries do not have any outstanding convertible security as at the date of this Prospectus; and
- (vii) Save as disclosed in this Prospectus, and save as provided under our Constitution and the CA 2016, there are no other restrictions upon the holding or voting or transfer of our Shares.

### 16.2 CHANGES IN SHARE CAPITAL OF OUR GROUP

#### 16.2.1 HPMT

Our share capital as at the date of this Prospectus is RM63,234,002 comprising 252,936,000 ordinary shares. The movements in the share capital of our Company since its incorporation are as follows:

<b>Date of allotment</b>	<b>No. of shares allotted</b>	<b>Consideration/Type of issue</b>	<b>Cumulative share capital (RM)</b>
16 November 2017	2	RM2/Subscribers' Shares	2
20 March 2019	15,336,000	RM3,834,002/Other than cash <i>(allotment of Shares pursuant to the Acquisition of MTC Tooling)</i>	3,834,002
29 March 2019	237,599,998	RM59,400,000/Other than cash <i>(allotment of Shares pursuant to the Acquisition of HPMT Industries, Acquisition of Herroz, Acquisition of HPMT GmbH and Acquisition of Pentagon)</i>	63,234,002

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in our Company. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotments.



## 16. STATUTORY AND OTHER GENERAL INFORMATION

### 16.2.2 HPMT Industries

HPMT Industries' share capital as at the LPD is RM2,500,000 comprising 2,500,000 ordinary shares. There is no change in the share capital of HPMT Industries for the past 3 financial years up to the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HPMT Industries. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotments.

### 16.2.3 Herroz

Herroz's share capital as at the LPD is RM1,626,518 comprising 1,626,518 ordinary shares. There is no change in the share capital of Herroz for the past 3 financial years up to the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Herroz. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotments.

### 16.2.4 HPMT GmbH

HPMT GmbH's share capital as at the LPD is EUR25,000 comprising 3 ordinary shares. There is no change in the share capital of HPMT GmbH for the past 3 financial years up to the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HPMT GmbH. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotments.

### 16.2.5 MTC Tooling

MTC Tooling's share capital as at the LPD is HKD1,000,000 comprising 1,000,000 ordinary shares. There is no change in the issued share capital of MTC Tooling for the past 3 financial years up to the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in MTC Tooling. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotments.

### 16.2.6 Pentagon

Pentagon's share capital as at the LPD is RM1,500,000 comprising 1,500,000 ordinary shares. The movements in the share capital of Pentagon since its incorporation are as follows:

<u>Date of allotment</u>	<u>No. of shares allotted</u>	<u>Consideration/Type of issue</u>	<u>Cumulative share capital</u> (RM)
3 March 2017	71	RM71/Subscribers' shares	71
3 March 2017	29	RM29/Issue for cash	100
29 May 2017	499,900	RM499,900/Issue for cash	500,000
28 February 2018	1,000,000	RM1,000,000/Issue for cash	1,500,000

## **16. STATUTORY AND OTHER GENERAL INFORMATION**

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As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Pentagon. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotments.

### **16.2.7 HPMT Shenzhen**

HPMT Shenzhen's registered share capital as at the LPD is CNY1,000,000. There is no change in the issued share capital of HPMT Shenzhen for the past 3 financial years up to the LPD.

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in HPMT Shenzhen. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

## **16.3 EXTRACTS OF OUR CONSTITUTION**

The following is extracted from our Constitution and is qualified in its entirety by the remainder of our Constitution and by applicable law. The words and expressions appearing in the following provisions shall bear the same meanings used in our Constitution unless otherwise defined or the context otherwise requires:

### **16.3.1 Remuneration, voting and borrowing powers of directors**

#### **Clause 82 – Chairman's casting vote**

In the case of an equality of votes on a show of hands, the Chairman of the meeting at which the show of hands takes place, shall not be entitled to a second or casting vote but not when a poll is demanded.

#### **Clause 107 – Remuneration**

The fees and any benefits payable to the Directors shall be such sum as shall from time to time be determined by an ordinary resolution of the Company and is subject to annual shareholder approval at a general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such fees are payable shall be entitled only to rank in such division for a proportion of the fees related to the period during which he has held office provided always that:

- 107.1 fees payable to non-executive Directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover;
- 107.2 salaries payable to executive Directors may not include a commission on or percentage of turnover;
- 107.3 fees payable to Directors shall not be increased except pursuant to a resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting; and
- 107.4 any fee paid to an Alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

## **16. STATUTORY AND OTHER GENERAL INFORMATION**

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### **Clause 108 – Reimbursement and special remuneration**

- 108.1 The Directors shall be entitled to be reimbursed for all travelling or such other reasonable expenses as may be incurred in attending and returning from meetings of the Directors or of any committee of the Directors or general meetings or otherwise howsoever in or about the business of the Company in the course of the performance of their duties as Directors; and
- 108.2 If by arrangement with the Directors, any Director shall perform or render any special duties or service's outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Directors may pay him special remuneration, in addition to his Director's fees, and such special remuneration may be by way of a fixed sum, or otherwise as may be arranged.

### **Clause 112 – Directors' borrowing powers**

- 112.1 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or of any related third party Provided Always that nothing contained in this Constitution shall authorise the Directors to borrow any money or mortgage or charge any of the Company's undertaking, property or any uncalled capital or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party;
- 112.2 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;
- 112.3 The Directors shall cause a proper register to be kept in accordance with Section 362 of the Act of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Act in regard to the registration of mortgages and charges therein specified or otherwise; and
- 112.4 Subject to the Act, if the Directors or any of them, or any other person, shall become personally liable for the payment of any sum primarily due from the Company, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors or persons so becoming liable as aforesaid from any loss in respect of such liability.

**16. STATUTORY AND OTHER GENERAL INFORMATION**

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**Clause 120 – Meetings of Directors**

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Subject to these Constitution, questions arising at any meeting shall be determined by a majority of votes. Directors may participate in a meeting of the Directors by means of a conference telephone or similar electronic tele-communicating equipment by means of which all persons participating in the meeting can hear each other and participates throughout the duration of the communication between the Directors and participates in a meeting pursuant to this provision shall constitute presence in person at such meeting. The venue of meeting held by means of a conference telephone or similar electronic tele-communicating equipment shall be decided by the Directors.

**Clause 126 – Chairman has casting vote**

In case of equality of votes the Chairman shall have a second/casting vote except where only 2 Directors are competent to vote on the question at issue, or at the quorum present at the meeting where 2 directors form a quorum, and in such case, the Chairman shall not have a casting vote.

**Clause 128 – Declaration of Interest and restriction of voting**

A Director who is in any way, whether directly or indirectly interested in a contract or proposed contract or arrangement with the Company, shall declare the nature of his interest in accordance with the provisions of the Act. A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly, a personal interest and if he should do so, his vote should not be counted, but this prohibition shall not apply to:

- (i) 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
- (ii) 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.

**Clause 129 – Directors retained from voting in interested transactions**

Every Director shall comply with the provisions of Sections 221 and 219 of the Act in connection with the disclosure of his shareholding and interest in any contract or proposed contract with the Company and in connection with the disclosure of the fact and the nature, character and extent of any office or possession of any property whereby whether directly or indirectly duties or interests might be created in conflict with his duty or interest as a Director of the Company.

**Clause 140 – Remuneration of Managing Director and Executive Director**

The remuneration of the Managing Director and/or Executive Directors may be by way of salary or commission or participation in profits or otherwise or by any or all of these modes but such remuneration shall not include a commission on or percentage of turnover.

**16. STATUTORY AND OTHER GENERAL INFORMATION**

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**16.3.2 Changes to share capital****Clause 7 – Authority of Directors to allot shares**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, and subject to the provisions of this Constitution, the Act, the Central Depositories Act and to the provisions of any resolution of the Company, shares in the Company may be issued by the Directors, who may allot or otherwise dispose of such shares to such persons on such terms and conditions with such (whether in regard to dividend, voting or return of capital) preferred, deferred or other special rights and either at a premium or otherwise, and subject to such restrictions and at such time or times as the Directors may think fit but the Directors in making any issue of shares shall comply with the following conditions:

- 7.1 no issue of shares shall be made which will have the effect of transferring a controlling interest in the Company to any person, company or syndicate without the prior approval of the Members in general meeting;
- 7.2 in the case of shares, other than ordinary shares, no special rights shall be attached until the same have been expressed in this Constitution or in the resolution creating the same;
- 7.3 every issue of shares or options to employees and/or Directors shall be approved by the Members in general meeting and:
  - (a) such approval shall specifically detail the amount of shares of options to be issued to such employees and/or Directors; and
  - (b) a Director not holding office in an executive capacity may so participate in an issue of shares pursuant to a share option scheme;
- 7.4 in the case of shares offered to the public for subscription the amount payable on application on each share shall not be less than ten per centum (10%) of the issue price;
- 7.5 the Company must ensure that all new issue of shares for which listing is sought shall be made by way of crediting the Securities Accounts of the allottees or entitled persons in the Depository with such securities save and except where the Company is specifically exempted from doing so. The Company shall notify the Depository of the names of the allottees or the entitled persons together with all such particulars as may be required by the Depository to enable it to make the appropriate entries in the Securities Accounts of such allottees or entitled persons; and
- 7.6 the Company must allot and issue Securities, despatch notices of allotment to the allottees and make an application for the quotation of such securities which such periods as may be prescribed by the Exchange.

**Clause 53 – Increase of share capital**

Without prejudice to the rights attached to any existing shares or class of shares, the Company in general meeting may by ordinary resolution increase its capital by the allotment of shares carrying such rights and restrictions, as the resolution specifies provided that where the capital of the Company consists of shares of different voting rights (if specified in such resolution) shall be prescribed in such a manner that a unit of capital in each class, shall carry such different voting power when such right is exercisable.

## **16. STATUTORY AND OTHER GENERAL INFORMATION**

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### **16.3.3 Transfer of securities**

#### **Clause 44 – Transfer of securities**

The transfer of any Listed Security or class of Listed Security in the Company shall be by way of book entry by the Bursa Depository in accordance with the Rules and notwithstanding Sections 105, 106 or 110 of the Act, subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the Listed Security.

#### **Clause 45 – Transferor's right**

The instrument of transfer of any share shall be executed by or on behalf of the transferor, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Record of Depositors in respect thereof.

#### **Clause 45A – Instrument of transfer**

Every instrument of transfer (for any share not being a deposited security) must be left for registration at the office of the Company's Registrar accompanied by the certificate of the shares comprised therein (if any) and such evidence as the Directors may reasonably require to prove the right of the transferor to make the transfer and the due execution by him of the transfer, and subject to the power vested in the Directors by this Constitution or the provisions of any other written law and if required, to reasonable evidence of nationality, the Company shall register the transferee as shareholder.

A fee not exceeding RM3.00 (excluding the stamp duty) or any amount as shall be determined from time to time by the Exchange may be charged for each transfer and shall if required by the Directors be paid before the registration thereof.

#### **Clause 46A – Refusal to transfer**

Subject to Section 106 and any other relevant provisions of the Act, the Directors may refuse or delay to register the transfer of a share, not being a deposited security, to a person of whom they shall not approve.

If the Directors passed a resolution to refuse or delay the registration of a transfer, they shall, within seven (7) days of the resolution being passed, give to the lodging broker, transferor and the transferee written notice of the resolution setting out the precise reasons thereof.

#### **Clause 46B – Non-liability of the Company, its Directors and officers in respect of transfer**

Neither the Company nor its Directors nor any of its officers shall incur any liability for registering or acting upon a transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred, and although the transfer may, as between the transferor and transferee, be liable to be set aside, and notwithstanding that the Company may have notice that such instrument of transfer was signed or executed and delivered by the transferor in blank as to the name of the transferee or the particulars of the shares transferred or otherwise in defective manner. And in every such case, the person registered as transferee, his executors, administrators and assigns alone shall be entitled to be recognised as the holder of such shares and the previous holder shall, so far as the Company is concerned, be deemed to have transferred his whole title thereto.

## **16. STATUTORY AND OTHER GENERAL INFORMATION**

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### **16.3.4 Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights**

#### **Clause 8 – Issuance of Preference Shares**

Subject to the Act, the Company shall have the power to issue any preference shares on the terms that they are, or at the option of the Company are liable, to be redeemed provided that:

- 8.1 Preference shareholders shall have the same rights as ordinary shareholders as regards the receiving of notices, reports and financial statements and the attending of general meetings of the Company;
- 8.2 Preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital or winding up or sanctioning a sale of the whole of the Company's property, business or undertaking or where the proposition to be submitted to the meeting directly affects their rights and privileges or when the dividend or part of the dividend on the preference shares is in arrears for more than six (6) months or during the winding up of the Company. On a resolution to be decided on a show of hands, a holder of preference shares who is personally present and entitled to vote shall be entitled to one (1) vote;
- 8.3 The holder of a preference shares shall be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up; and
- 8.4 The Company shall not, without the consent of the existing preference shareholders at a class meeting or pursuant to clause 19 hereof, issue further preference capital ranking in priority above preference shares already issued but may issue preference shares ranking equally therewith.

#### **Clause 15 – Issue of Securities**

Subject to the Listing Requirements, the Act, the Central Depositories Act and/or the Rules and notwithstanding the existence of a resolution pursuant to Section 75 of the Act, the Company must ensure that it shall not issue any shares or convertible Securities if those shares or convertible Securities, when aggregated with any such shares or convertible Securities issued during the preceding twelve (12) months, exceeds 10% of the value of the issued and paid-up capital of the Company, except where the shares or convertible Securities are issued with the prior approval of shareholders in general meeting of the precise terms and conditions of the issue. In working out the number of shares or convertible Securities that may be issued by the Company, if the Security is convertible, each such convertible Security is counted as the maximum number of shares into which it can be converted or exercised.

#### **Clause 16 – Exercise of rights of members**

No person shall exercise any rights of a member until his name shall have been entered in the Records of Depositors and he shall have paid all calls and other moneys for the time being due and payable on any share held by him.

#### **Clause 19 – Repayment of Preference Capital**

Notwithstanding Clause 20 hereof, the repayment of preference shares other than redeemable preference shares, or any alteration of preference shareholders rights may only be made pursuant to a special resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a special resolution is not obtained at the class meeting, consent in writing, if obtained from the holders of three-fourths (3/4) of the preference shares concerned within two (2) months of the class meeting, shall be as valid and effectual as a special resolution carried at the class meeting.



## 16. STATUTORY AND OTHER GENERAL INFORMATION

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### Clause 20 – Alteration of class rights

Whenever the capital of the Company is divided into different classes of shares or groups the special rights attached to any class or group may subject to the provisions of this Constitution (unless otherwise provided by the terms of issue of the shares of the class) and Section 91 of the Act, either with the consent in writing of the holders of three-quarters (3/4) of the issued shares of the class or group, or with the sanction of any Special Resolution passed at a separate general meeting of such holders (but not otherwise), be modified or abrogated, and may be so modified or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up, and such writing or resolution shall be binding upon all the holders of shares of the class. To every such separate general meeting all the provisions of this Constitution relating to general meetings or to the proceedings thereat shall, mutatis mutandis, apply, except that the necessary quorum shall be two persons at least holding or representing by proxy one-third (1/3) in nominal amount of the issued shares of the class or group (but so that if an adjourned meeting of such holders a quorum as above defined is not present those Members who are present shall be a quorum), that any holder of shares in the class present in person or by proxy may demand a poll and that the holders of shares of the class or group shall, on a poll, have one vote in respect of every share of the class or group held by them respectively. To every such special resolution, the provisions of Section 91 of the Act, shall, with such adaptations as are necessary, apply.

### Clause 21 – Ranking of class rights

The special rights conferred upon the holders of the shares of any class with preferred or other preferential rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects *pari passu* therewith but in no respect in priority thereto.

### Clause 54 – Issue of new shares to existing members

Subject to any direction to the contrary that may be given by the Company in general meeting any new shares or other convertible securities from time to time to be created shall, before they are issued, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may in like manner dispose of any such new shares or securities as aforesaid which, by reason of the ratio borne by them to the number of shares or securities held by persons entitled to such offer of new shares or securities cannot, in the opinion of the Directors be conveniently offered in the manner herein provided.

## 16.4 LIMITATION ON THE RIGHT TO HOLD SECURITIES AND/OR EXERCISE VOTING RIGHTS

Pursuant to subsection 14(1) of the SICDA, Bursa Securities has prescribed our Shares as securities to be deposited into the CDS. Consequently, the Shares offered in our IPO will be deposited directly with Bursa Depository. Any dealing in our Shares will be carried out in accordance with the SICDA and the Rules of Bursa Depository. We will not issue any share certificates to successful applicants.



## 16. STATUTORY AND OTHER GENERAL INFORMATION

Dealing in our Shares deposited with Bursa Depository may only be effected by a 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.

Subject to the above, there is no limitation on the right to own our securities, including any limitation on the right of a non-resident or non-Malaysian shareholder to hold or exercise voting rights on such securities, which is imposed by Malaysian law or by the constituent documents of our Company.

### 16.5 GENERAL INFORMATION

- (i) The nature of our business has been disclosed in Section 7.3 of this Prospectus;
- (ii) Save for the companies within our Group as disclosed in Section 6.5 of this Prospectus, our Company has not established any other place of business outside Malaysia;
- (iii) Apart from the listing sought on the Main Market of Bursa Securities, our Company is not listed on any other stock exchange;
- (iv) The manner in which copies of this Prospectus together with the Application Forms and envelopes may be obtained is set out in Section 17 of this Prospectus;
- (v) The date and time of the opening and closing of the Application of the Retail Offering are set out in Sections 4.2 and 17.1 of this Prospectus;
- (vi) The amount payable in full on application to our Company is RM0.56 per Share;
- (vii) Save as disclosed in Section 4.9 of this Prospectus, no commissions, discounts, brokerages or other special terms have been paid or is payable by our Company within the two years immediately preceding the date of this Prospectus for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any securities in or debentures of our Company and in connection with the issue or sale of any capital of our Company and no Director or Promoter or expert is or are entitled to receive any such payment or any other benefits; and
- (viii) Save as disclosed in Annexure D of this Prospectus, there are no governmental laws, decrees, regulations or other legislations that may affect the repatriation of capital and the remittance of profits of our foreign Subsidiaries to us.

### 16.6 MATERIAL CONTRACTS

Save as disclosed below, there are no contracts which are material (not being contracts entered into in the ordinary course of business) which have been entered into by our Group during the Period under Review up to the date of this Prospectus:

- (i) MTC Tooling (as vendor) had, on 30 April 2018, entered into a sale and purchase agreement with Smart Sun City (HK) Ltd (as purchaser), a related party, for the Disposal of HK Properties for a cash consideration of HKD8,800,000 (equivalent to RM4,395,653<sup>(1)</sup>). The said agreement was completed on 30 April 2018;

**16. STATUTORY AND OTHER GENERAL INFORMATION**

- (ii) HPMT (as purchaser) had, on 25 May 2018, entered into a conditional share sale agreement with Mec. Tech (as vendor) for the acquisition of the following companies:
- (a) 2,500,000 ordinary shares in HPMT Industries representing the entire equity interest in HPMT Industries; and
- (b) 1,626,518 ordinary shares in Herroz representing the entire equity interest in Herroz,
- for a total purchase consideration sum of RM56,391,000, which was satisfied by way of allotment and issuance of Shares to Herroz Mechanical, the holding company of Mec. Tech. The said acquisition was completed on 29 March 2019;
- (iii) HPMT (as purchaser) had, on 25 May 2018, entered into a conditional share sale agreement with Herroz Mechanical (as vendor) for the acquisition of 1,125,000 ordinary shares in Pentagon representing 75.00% of the entire equity interest in Pentagon for a purchase consideration sum of RM801,000, which was satisfied by way of allotment and issuance of Shares to Herroz Mechanical. The said acquisition was completed on 29 March 2019;
- (iv) HPMT (as purchaser) had, on 25 May 2018, entered into a conditional share sale agreement with Mec. Tech and Yoong Kam Sing for the acquisition of 1,000,000 ordinary shares in MTC Tooling representing the entire equity interest in MTC Tooling for a purchase consideration sum of HKD7,402,244 (equivalent to RM3,834,000<sup>(2)</sup>), which was satisfied by way of allotment and issuance of Shares to Herroz Mechanical, the holding company of Mec. Tech and Yoong Kam Sing. The said acquisition was completed on 20 March 2019;
- (v) HPMT (as purchaser) had, on 25 May 2018, entered into a conditional share sale agreement with Mec. Tech (as vendor) for the acquisition of 3 ordinary shares in HPMT GmbH representing the entire equity interest in HPMT GmbH for a purchase consideration sum of EUR455,821.60 (equivalent to RM2,208,000<sup>(3)</sup>), which was satisfied by way of allotment and issuance of Shares to Herroz Mechanical, the holding company of Mec. Tech. The said acquisition was completed on 29 March 2019;
- (vi) HPMT Industries (as purchaser) had, on 1 June 2018, entered into a sale and purchase agreement with Herroz Mechanical (as vendor) for the Acquisition of Block C for a cash consideration of RM19,000,000. The said acquisition was completed on 31 December 2018;
- (vii) The Placement Agreement for the placement of 91,889,000 IPO Shares under the Institutional Offering, subject to clawback and reallocation provisions; and
- (viii) The Underwriting Agreement for the underwriting of 24,726,000 Public Issue Shares under the Retail Offering, subject to clawback and reallocation provisions.

**Notes:**

- (1) Based on the middle rate of HKD100.00:RM49.9506 at 5.00 p.m. on 30 April 2018 as published by BNM.
- (2) Based on the middle rate of HKD100.00:RM51.7951 at 5.00 p.m. on 29 December 2017 as published by BNM.
- (3) Based on the middle rate of EUR1.00:RM4.8440 at 5.00 p.m. on 29 December 2017 as published by BNM.

## **16. STATUTORY AND OTHER GENERAL INFORMATION**

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### **16.7 MATERIAL LITIGATION**

As at the LPD, we are not engaged in any material litigation and 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 against our Group or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of our Group.

### **16.8 CONSENTS**

The written consents of our Principal Adviser, legal advisers, Issuing House and Share Registrar, and company secretary as set out in the Corporate Directory of this Prospectus for the inclusion in this Prospectus of their names and all references thereto 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.

The written consent of our auditors and reporting accountants for the inclusion of its name, Accountants' Report and Reporting Accountants' Report on the Pro Forma Consolidated Statements of Financial Position, and all references thereto in the form and context in which they appear in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

The written consent of the Independent Market Researcher for the inclusion of its name, the Executive Summary of the Independent Market Research Report and all references thereto 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.

The written consent of the Independent Property Valuer for the inclusion of its name and the valuation certificate dated 13 September 2018 and updated valuation certificate dated 26 April 2019 in relation to Block C, and all references thereto 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.

### **16.9 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at our registered office at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, Malaysia during office hours for a period of 6 months from the date of this Prospectus:

- (i) our Constitution;
- (ii) our material contracts referred to in Section 16.6 above;
- (iii) executive summary of the IMR Report, as set out in Section 8 of this Prospectus and the IMR Report as prepared by Protégé;
- (iv) the Reporting Accountants' Report on the Pro Forma Consolidated Statements of Financial Position as referred to in Section 14 of this Prospectus;
- (v) the Accountants' Report as referred to in Section 15 of this Prospectus;
- (vi) the letters of consent referred to in Section 16.8 above;
- (vii) the audited financial statements of our Company for the financial period from 16 November 2017 (date of incorporation) to 31 December 2017 and FYE 2018;

**16. STATUTORY AND OTHER GENERAL INFORMATION**

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- (viii) the audited financial statements of HPMT Industries, Herroz, HPMT GmbH, MTC Tooling and HPMT Shenzhen for FYE 2015 to FYE 2018;
- (ix) the audited financial statements of Pentagon for the financial period from 3 March 2017 (date of incorporation) to 31 December 2017 and FYE 2018; and
- (x) the valuation certificate dated 13 September 2018 and updated valuation certificate dated 26 April 2019 in relation to Block C as set out in Annexure A of this Prospectus and the corresponding valuation report and updated valuation report prepared by the Independent Property Valuer.

## 17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE “DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE” ACCOMPANYING THE ELECTRONIC COPY OF THIS PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT OUR ISSUING HOUSE FOR FURTHER ENQUIRIES.

### 17.1 OPENING AND CLOSING OF APPLICATION

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 17 MAY 2019

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 29 MAY 2019

If there is any change to the date or time for closing, we will advertise the notice of such change in widely circulated Bahasa Malaysia and English daily newspapers in Malaysia prior to the original closing date of the Application.

**Late Applications will not be accepted.**

### 17.2 METHODS OF APPLICATION

#### 17.2.1 Retail Offering

All Applications must accord with this Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

<b>Types of Application</b>	<b>Application method</b>
Applications by Eligible Persons	Pink Form Applications only
Applications by the Malaysian Public:	
(i) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(ii) Non-Individuals	White Application Form only

#### 17.2.2 Placement

<b>Types of Application</b>	<b>Application method</b>
Applications by:	
(i) Selected investors	The Placement Manager will contact the selected investors directly. They should follow the Placement Manager's instructions.
(ii) Bumiputera investors approved by MITI	MITI will contact the Bumiputera investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera investors approved by MITI may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form or Electronic Share Application or Internet Share Application.

## 17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

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### 17.3 ELIGIBILITY

#### 17.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the “**Detailed Procedures for Application and Acceptance**” accompanying the electronic copy of this Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

**MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.**

**AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.**

#### 17.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (i) you must be one of the following:
  - (a) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
  - (b) a corporation/institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors/trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
  - (c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia;
- (ii) you must not be a director or employee of our Issuing House or an immediate family member of a director or employee of our Issuing House; and
- (iii) you must submit Applications by using only one of the following methods:
  - (a) White Application Form;
  - (b) Electronic Share Application; or
  - (c) Internet Share Application.

## 17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

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### 17.3.3 Application by Eligible Persons

The Eligible Persons will be provided with Pink Application Forms and letters from us detailing their respective allocation.

### 17.4 PROCEDURES FOR APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of this Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.56 for each IPO Share.

Payment must be made out in favour of “**TIIH SHARE ISSUE ACCOUNT NO. 682**” and crossed “**A/C PAYEE ONLY**” and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

- (i) **DESPATCH 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) **DELIVER BY HAND AND DEPOSIT** 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 29 May 2019 or by such other time and date specified in any change to the date or time for closing.

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.

### 17.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATION

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

## **17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE**

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### **17.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATION**

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CIMB Investment Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

### **17.7 AUTHORITY OF OUR BOARD AND OUR ISSUING HOUSE**

Our Issuing House, on the authority of our Board reserves the right to:

- (i) reject Applications which:
  - (a) do not conform to the instructions of this Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
  - (b) are illegible, incomplete or inaccurate; or
  - (c) are accompanied by an improperly drawn up, or improper form of remittance; or
- (ii) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (iii) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 17.8 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of our Issuing House at any time within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.



## **17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE**

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### **17.8 UNSUCCESSFUL/PARTIALLY SUCCESSFUL APPLICANTS**

If you are unsuccessful/partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner:

#### **17.8.1 For applications by way of Application Forms**

- (i) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.
- (ii) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.
- (iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by our Issuing House as per items (i) and (ii) above (as the case may be).
- (iv) Our Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by ordinary post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

#### **17.8.2 For applications by way of Electronic Share Application and Internet Share Application**

- (i) Our 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 into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within two Market Days after the receipt of confirmation from our Issuing House.
- (ii) You may check your account on the 5th Market Day from the balloting date.

## 17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

- (iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by our Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within two Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within two Market Days after the receipt of confirmation from our Issuing House.

### 17.9 SUCCESSFUL APPLICANTS

If you are successful in your Application:

- (i) Our IPO Shares allotted to you will be credited into your CDS account.
- (ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.
- (iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued/offered through 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.

### 17.10 ENQUIRIES

Enquiries in respect of the Applications may be directed as follows:

<b>Mode of Application</b>	<b>Parties to direct the enquiries</b>
Application Forms	Issuing House Enquiry Services Telephone at telephone no. (03) 2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at our Issuing House's website at <https://tiih.online>, 1 Market Day after the balloting date.

**17. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE**

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You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of this Prospectus on the website of Bursa Securities.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**



Our Ref : 30V171011CV

13<sup>th</sup> September 2018

**The Board of Directors  
HPMT Holdings Berhad**  
Level 2, Tower 1, Avenue 5  
Bangsar South City  
59200 Kuala Lumpur

Dear Sirs,

**VALUATION CERTIFICATE OF LOT NO. PT 57353, MUKIM AND DISTRICT OF KLANG, STATE OF SELANGOR DARUL EHSAN AND HELD UNDER TITLE NO. HSD 57945**

**(Property Address : No. 7, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan)**

This Valuation Certificate has been prepared for inclusion in the prospectus of **HPMT Holdings Berhad** (hereinafter referred to as "HPMT") of the abovementioned property (hereinafter referred to as "the subject property") in connection with the initial public offering ("IPO") and listing of HPMT on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

In accordance with the instructions from **HPMT**, we have valued the subject property vide our valuation report Reference No. 30V171011 dated 13<sup>th</sup> September 2018 ("Valuation Report") for the purpose of **submission to Securities Commission Malaysia in conjunction with the IPO and listing of HPMT** ("IPO and Listing of HPMT").

We are pleased to certify that we have conducted the valuation on the legal interest of the subject property as at the material date of valuation on 12<sup>th</sup> September 2018.

The Valuation Report and Valuation Certificate have been prepared in compliance with the Asset Valuation Guidelines issued by the Securities Commission Malaysia and the Malaysian Valuation Standards (5<sup>th</sup> Edition 2015) issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The basis of valuation for the purpose of the report and valuation is the Market Value as defined in the Malaysian Valuation Standards (5<sup>th</sup> Edition 2015). Market Value as defined in STANDARD 1 – Market Value Basis of Valuation being "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

**Rahim & Co International Sdn.Bhd.**  
(1126597-X)

Level 17 Menara Liberty  
1008 Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia

T | +(603) 2691 9922  
F | +(603) 2691 9992  
E | kl@rahim-co.com

Board Reg. No. VE(1)0065

Kuala Lumpur. Alor Setar. Butterworth. Ipoh.  
Cheras. Johor Bahru. Kangar. Kemaman.  
Klang. Kota Bharu. Kota Kinabalu.  
Kuala Terengganu. Kuantan. Kuching.  
Malacca. Penang. Petaling Jaya. Seremban.  
Subang Jaya. Sungai Petani. Temerloh.

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**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

Our Ref : 30V171011CV

The subject property (Lot No. PT 57353) is owned by Herroz Mechanical Technologies Sdn Bhd. HPMT Industries Sdn Bhd is a wholly owned subsidiary of Mec. Tech Corporation Sdn Bhd., which in turn is a wholly owned subsidiary of Herroz Mechanical Technologies Sdn Bhd. HPMT Industries Sdn Bhd is a tenant of Unit No. 7B and also owns the adjoining property (Lot No. PT 57354). On 1 June 2018, HPMT Industries Sdn Bhd entered into a conditional sale and purchase agreement with Herroz Mechanical Technologies Sdn Bhd to acquire the subject property for a purchase consideration of RM19 million (“**Acquisition**”). To facilitate HPMT Industries Sdn Bhd’s day-to-day operations in both lots, a cooling tower (with 2 water tanks) was built straddling the two lots. Similarly, a metal roof canopy measuring about 50 feet in length has been built linking the two factory buildings. The said canopy has a width of about 40 feet and a height of about 18 feet at the subject lot portion. There is another structure measuring about 10 feet by 30 feet that was built with benches for the workers to rest, which is partially located under the metal roof canopy.

Pending completion of the Acquisition and amalgamation of the two lots, HPMT Industries Sdn Bhd has appointed a consultant to apply for a temporary permit for each of the abovementioned. HPMT Industries Sdn Bhd has initiated the process of applying for the abovementioned temporary permits.

In this valuation, we have not ascribed any value to the abovementioned structures.

We have prepared this certificate which summarises our Valuation Report and outlines key factors which have been considered in arriving at our opinion of the Market Value. This letter contains all the necessary data and supporting information included in our report. For further information in relation to those contained herein, reference should be made to the said report.

Brief description of the subject property is as follows:.

**IDENTIFICATION OF PROPERTY**

<b><i>Property Address</i></b>	No. 7, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan
<b><i>Property Description</i></b>	A parcel of freehold industrial land built-upon with a three (3)-storey office building and an annexed single (1)-storey factory building
<b><i>Provisional Land Area</i></b>	6,866 sq. metres (about 73,905 sq. feet or 1.7 acres)
<b><i>Gross Floor Area</i></b>	4,990.58 sq. metres (53,718 sq. feet)
<b><i>Net Lettable Area</i></b>	4,831 sq. metres (52,000 sq. feet)
<b><i>Planning</i></b>	Designated for industrial use as noted in the title
<b><i>Location of Property</i></b>	The subject property is located approximately 30 kilometres due south west of the Kuala Lumpur City Centre and about 10 kilometres due south west of the Shah Alam City Centre.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

Our Ref : 30V171011CV

The subject property is easily accessible via the Lebuhraya Shah Alam and exiting at the Kebun interchange, turning left onto Jalan Kebun and thereafter onto Jalan Sungai Rasau 32/22, Jalan Sungai Kayu Ara 32/38, Jalan Sungai Kayu Ara 32/37 and finally onto Jalan Sungai Kayu Ara 32/39 whereby the subject property is located at the corner of the aforesaid road.

**TITLE PARTICULARS**

<b><i>Title No.</i></b>	HSD 57945
<b><i>Lot No.</i></b>	Lot PT 57353, Mukim and District of Klang, State of Selangor Darul Ehsan
<b><i>Tenure</i></b>	Freehold interest
<b><i>Registered Owner</i></b>	Herroz Mechanical Technologies Sdn Bhd
<b><i>Category of Land Use</i></b>	Industrial

**GENERAL DESCRIPTION*****Brief Description of the Subject Property******The Site***

The subject site is a corner detached freehold industrial land and is almost trapezoidal in shape. It is generally flat in terrain and lies slightly elevated above the level of the frontage road. It has a provisional land area of 6,866 sq. metres (about 73,905 sq. feet or 1.7 acres) as extracted from the land title.

***The Buildings***

Erected upon the site is a three (3)-storey office building and an annexed single (1)-storey factory as well as other ancillary buildings. They are 2 units of single storey guard house and a TNB substation which houses a switchgear room, a TX room and a LV switch room. Since there are two tenants occupying the subject property, the three (3)-storey office building and the annexed single (1)-storey factory has been internally partitioned with plastered brick walls and metal deck walls on each level to accommodate the 2 tenants and each partitioned unit is identified as Unit No. 7A and Unit No. 7B. Unit No. 7A is a corner unit with access from Jalan Sungai Kayu Ara 32/37, a return frontage road, whilst Unit No. 7B is an intermediate unit with access from Jalan Sungai Kayu Ara 32/39, the lot's frontage road. The office building is constructed of reinforced concrete framework infilled with plastered brick walls and partly of glass cladding walls at the front portion and covered with metal roof deck. The factory building is constructed of steel portal framework on reinforced concrete foundations with reinforced concrete floors, metal deck wall mounted onto plastered brick walls and steel roof trusses laid over with metal roofing sheets and partly of reinforced concrete flat roof. The eaves height of the annexed 1-Storey factory is about 30 feet.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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The approximately main floor area of the subject buildings are as follow :-

<b>3-Storey Office Building</b>	Unit No. 7A	9,230 sq. feet	857.50 sq. metres
	Unit No. 7B	9,230 sq. feet	857.50 sq. metres
	<b>Total</b>	<b>18,460 sq. feet</b>	<b>1,715.00 sq. metres</b>

<b>Annexed 1-Storey factory</b>	Unit No. 7A	18,480 sq. feet	1,716.85 sq. metres
	Unit No. 7B	15,872 sq. feet	1,474.56 sq. metres
	<b>Total</b>	<b>34,352 sq. feet</b>	<b>3,191.41 sq. metres</b>

<b>Guard Houses</b>	48 sq. feet each	4.47 sq. metres each
<b>TNB substation which includes a switchgear room, a TX room and a LV switch room</b>	810 sq. feet	75.27 sq. metres

The buildings are noted to be generally in good decorative state of repair.

We have not been provided with any report in respect of the structural integrity or condition of the plant and machinery or service facilities within the property. After making reasonable enquiries, our approach to valuation by necessity assumes that no significant expenditure is required in respect of the repair and maintenance of the building or facilities contained therein at the present time.

**Planning Provision**

The subject property is designated for "Perusahaan" (industrial) use and the express condition stated as "Perusahaan" as noted in the title document.

The subject property has been issued with a Certificate of Fitness for Occupation dated 13<sup>th</sup> January 2009 by Majlis Bandaraya Shah Alam.

Save for the building of the cooling tower (with 2 water tanks) and the metal roof canopy together with the workers' rest area structure the subject property has not breached any relevant building laws.

**MARKET VALUE**

***Date of Valuation*** : 12<sup>th</sup> September 2018

***Method of Valuation*** : Cost Approach and Investment Method by Income Approach

**Cost Approach**

The Cost Approach involves the valuation of land by comparison with evidence of values of comparable land and adding to it the current replacement cost of the building less depreciation, if necessary. The current replacement cost involves the construction cost, financing charges, advertising charges, professional fees, other incidental expenses and developer's profit.

There are no recent transactions of industrial lands in Berjaya Industrial Park. We have identified and analysed the following transactions of vacant industrial lands located in the vicinity along Jalan Bukit Kemuning and in a larger neighbourhood in Shah Alam as well as a plot of vacant industrial land in the Berjaya Industrial Park transacted in 2013.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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Description	Comparable 1	Comparable 2	Comparable 3
<b>Property Type</b>	Vacant industrial land(s)		
<b>Title/Lot No.</b>	Geran Mukim 8528, Lot No. 82336, Mukim and District of Klang, State of Selangor Darul Ehsan	Pajakan Negeri 110153 - 110155, Lot 371 – 373 respectively, all in Seksyen 23, Bandar Shah Alam District of Petaling, State of Selangor Darul Ehsan	HSD 57949, Lot No. PT 57357, Mukim and District of Klang, State of Selangor Darul Ehsan
<b>Locality of Property</b>	Along Jalan Bukit Kemuning Shah Alam, Selangor Darul Ehsan	No. 2 – 6, Jalan Dividen 23/6, Seksyen 23, Shah Alam, Selangor Darul Ehsan	Along Jalan Sungai Kayu Ara 32/37, Berjaya Industrial Park, Shah Alam, Selangor Darul Ehsan
<b>Tenure</b>	Freehold	Leasehold interest expiring on 9th March 2107	Freehold
<b>Land Area</b>	9,104 sq. metres (97,995 sq. feet)	16,474 sq. metres (177,324 sq. feet)	7,841 sq. metres (84,400 sq. feet)
<b>Consideration</b>	RM11,679,133/-	RM26,500,000/-	RM11,896,029/-
<b>Date of Transaction</b>	28 <sup>th</sup> June 2017	24 <sup>th</sup> June 2016	16 <sup>th</sup> December 2013
<b>Source</b>	Valuation and Property Services Department		
<b>Analysis</b>	RM119 per sq. foot	RM149 per sq. foot	RM141 per sq. foot
<b>Adjustments</b>	Upward adjustment made on general location and shape/terrain	Upward adjustment made on size and tenure Downward adjustment made on general location	Upward adjustment made on time
<b>Adjusted Value</b>	RM149 per sq. foot	RM149 per sq. foot	RM155 per sq. foot

Based on the adjustments mentioned above to arrive at the land value, we have arrived at the adjusted land values of the comparable ranging between RM149 to RM155 per sq. foot. We are of the opinion that Comparable 3 is the best comparable as it is located in the same industrial park. The adjusted value on Comparable 3 is RM155/- per sq. foot. Thus, we have adopted RM155/- per sq. foot for unimproved site. As the subject property is an improved site, we have added RM5/- per sq. foot for improved site to cover the construction of metal grilles mounted onto plastered brickwalls fencing, chain link fencing, tarmac improvement of internal service roads around the parameters of the buildings and further depreciated the site improvement at 10%.

In assessing the cost of the subject buildings, we have been guided by the JUBM and Langdon Seah Construction Cost Handbook Malaysia 2017 issued by Davis Langdon & Seah (Malaysia) Sdn Bhd in collaboration with Juru Ukur Bahan Malaysia & JUBM Sdn Bhd. We have derived the following building value and depreciation rate which are adopted in our valuation: -

Buildings	Building Value	Depreciation rate
Annexed single (1)-storey detached factory	RM150 per sq. foot.	10%
Three (3)-storey office building	RM150 per sq. foot.	
Ancillary buildings	RM100 per sq. foot.	

We have adopted a depreciation rate of 10% after taking into consideration the age of the buildings currently about 9 years old as well as the condition of the buildings which are well maintained.



**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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Our Ref : 30V171011CV

**Investment Method by Income Approach**

The Investment Method by Income Approach entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income. The net annual income is capitalised at a market derived net yield to arrive at the capital value of the property.

In undertaking our assessment of the value using the Investment Method by Income Approach, we have considered the current passing rentals as per the Tenancy Agreements as well as current asking rentals in the vicinity, as well as the annual expenses of the subject property provided to us by the client for the past 3 years. Under this approach the property is viewed as an investment with the potential income from the existing improvements capitalised at an appropriate yield.

**Monthly Gross Rental**

The asking rentals for factories/warehouses in the vicinity are ranging from RM1.69 to RM2.38 per sq. foot, depending on the type of building, built-up area and location. The current passing rental for the Unit No. 7A and Unit No. 7B is at RM1.55 per sq. foot and RM1.56 per sq. foot respectively. We are of the opinion that the achievable gross rental rate on the reversionary term of the subject property is RM1.70 per sq. foot per month.

**Average Monthly Outgoings**

The average monthly outgoings of the subject property for the past 3 years is approximately RM0.10 per sq. foot. However, we have adopted RM0.15 per sq. foot in this valuation for allowance of occasional external repair. This is in line with the market average for monthly outgoings of detached factories complex/warehouses which are ranging from RM0.12 per sq. foot to RM0.21 per sq. foot.

**Capitalisation Rates**

Our analysis revealed yields from factories/warehouses in the vicinity are ranging from 5.00% to 7.50%. The most important factor affecting yield is the degree of risk inherent in the investment. To determine the net yield that the property would reasonably fetch, we have made appropriate adjustment for factors such as the condition of the building, location, tenancy profile and nature of business. Therefore, we are of the opinion that the achievable net yield for the subject property is 6.00% for the term period on the basis that the term period is more secured and is easily attainable. For the reversionary period, we have adopted a net yield of 6.25% to reflect the uncertainty in the future.

**Void**

The void allowance is for possible future vacancies, rent free periods and the possibility of bad debts. We have adopted a void factor of about 5% as Berjaya Industrial Park is almost fully built-up and we noted that all the factories are being occupied even during this period where the property market is soft.

***Reconciliation of Valuation***

Cost Approach	: RM19,000,000/-
Investment Method by Income Approach	: RM14,590,000/-

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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Our Ref : 30V171011CV

We are of the opinion that the Market Value of the subject property of **RM19,000,000/-** based on the Cost Approach is fair and reasonable. We have adopted the Market value based on the Cost Approach, as a primarily approach to value the subject property. The Investment Method by Income Approach is a secondary approach and is adopted as a check method of valuation. In this valuation exercise, we are of the opinion that the Cost Approach provides a fair representation of the market value of the subject property after taking into account the following considerations :-

1. There are sufficient data made available to value the land and building components under the Cost Approach.
2. Under the Cost Approach, the value of the land component itself is already RM11,800,000/- based on the sale of lands within the subject development and the surrounding industrial developments indicating that the value arrived by the Investment Method does not reflect the market value of the subject property.
3. The Investment Method by Income Approach has limitations due to insufficient availability of industrial rental and outgoings evidences to justify the income stream and yield to arrive at the capital value of the property under this approach.
4. About 47% of total net lettable area of the subject property is presently tenanted by a related party, namely HPMT Industries Sdn Bhd. Herroz Mechanical Technologies Sdn Bhd is the penultimate holding company of HPMT Industries Sdn Bhd. The subject property is not held for investment but rather for its own use.

***Opinion of Market Value***

We assess the Market Value of the subject property, i.e. **LOT NO. PT 57353, MUKIM AND DISTRICT OF KLANG, STATE OF SELANGOR DARUL EHSAN AND HELD UNDER TITLE NO. HSD 57945, (Property Address : No. 7, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan)**, as at 12<sup>th</sup> September 2018, in its existing condition, free from all encumbrances, with the title held under freehold interest and being good, marketable and registrable as well as with vacant possession and subject to the existing tenancies is **RM19,000,000/- (Ringgit Malaysia: Nineteen Million Only)**.

Yours faithfully,

**RAHIM & CO INTERNATIONAL SDN BHD**

**Sr CHEE KOK THIM, FRISM, FPEPS, MRICS, MMIPPM**

Director

Registered Valuer (V-325)

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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**RAHIM & CO INTERNATIONAL SDN BHD**

Rahim & Co is a real estate consultancy firm founded in December 1976. With a nationwide network of 20 offices, Rahim & Co provides a comprehensive range of services encompassing all aspects of real estate, including valuation, estate agency, research and properties and facilities management.

Sr Chee Kok Thim holds a Bachelor Degree in Property Administration from the University of Auckland and is the Director of Rahim & Co. Prior to joining Rahim & Co in July 1997, Sr Chee had served more than 21 years with the Valuation and Property Services Department in the Ministry of Finance, Malaysia. Sr Chee is currently an examiner and a committee member for the Test of Professional Competence of the Board of Valuers, Appraisers and Estate Agents Malaysia. He is a Fellow of the Royal Institution of Surveyors Malaysia, a Member of the Royal Institution of Chartered Surveyors (UK), a Fellow of PEPS and a Member of the Malaysian Institute of Professional Property Managers. He was a past Chairman of the RISM Examination Board for many years and has been awarded the Lifetime Achievement Award by the Royal Institution of Surveyors Malaysia. Over the years he has gathered vast experience in matters relating to the real estate industry and has conducted valuations for all types of property in Malaysia and has also conducted valuations of commercial properties in London and Australia for the purpose of submission to Securities Commission Malaysia.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**



Our Ref : 30V171011CV

26<sup>th</sup> April 2019

**The Board of Directors  
HPMT Holdings Berhad**  
Level 2, Tower 1, Avenue 5  
Bangsar South City  
59200 Kuala Lumpur

Dear Sirs,

**UPDATED VALUATION CERTIFICATE OF LOT NO. PT 57353, MUKIM  
AND DISTRICT OF KLANG, STATE OF SELANGOR DARUL EHSAN AND  
HELD UNDER TITLE NO. HSD 57945**

**(Property Address : No. 7, Jalan Sungai Kayu Ara 32/39, Taman Berjaya,  
Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan)**

In accordance with the instructions from **HPMT Holdings Berhad** (*hereinafter referred to as "HPMT" or "the client"*), we have valued the abovementioned property (*hereinafter referred to as "the subject property"*) vide our valuation report bearing Reference No. 30V171011 dated 13<sup>th</sup> September 2018 in connection with the initial public offering and listing of HPMT on the Main Market of Bursa Malaysia Securities Berhad.

This Valuation Certificate is an update of the valuation dated 13<sup>th</sup> September 2018 and has been prepared in compliance with the Malaysian Valuation Standards (6<sup>th</sup> Edition 2019) issued by the Board of Valuers, Appraisers, Estate Agents and Property Managers, Malaysia and the Asset Valuation Guidelines issued by the Securities Commission Malaysia (revised on 19<sup>th</sup> January 2017).

We are pleased to certify that we had conducted the valuation on the legal interest of the subject property as at the material date of valuation on 12<sup>th</sup> September 2018 and an update of the valuation on 8<sup>th</sup> April 2019.

The basis of valuation for the purpose of the report and valuation is the Market Value as defined in the Malaysian Valuation Standards (6<sup>th</sup> Edition 2019). Market Value as defined in STANDARD 1 – Market Value Basis of Valuation being "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Rahim & Co International Sdn.Bhd  
(1126597-X)

Level 17 Menara Liberty  
1008 Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia

T | +(603) 2691 9922

F | +(603) 2691 9992

E | kl@rahim-co.com

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**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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The subject property (Lot No. PT 57353) was formerly owned by Herroz Mechanical Technologies Sdn Bhd but was sold to HPMT Industries Sdn Bhd vide a Conditional Sale and Purchase Agreement on 1 June 2018 and the sale was completed on 31 December 2018. The title to the subject property is now registered under HPMT Industries Sdn Bhd.

HPMT Industries Sdn Bhd is a wholly owned subsidiary of HPMT Holdings Berhad, which in turn is a subsidiary of Herroz Mechanical Technologies Sdn Bhd. HPMT Industries Sdn Bhd also owns the adjoining property (Lot No. PT 57354). To facilitate HPMT Industries Sdn Bhd's day-to-day operations in both lots, a cooling tower (with 2 water tanks) was built straddling the two lots. Similarly, a metal roof canopy measuring about 25 feet by 24.6 feet has been built linking the two factory buildings to serve as a workers' rest area for the workers from both factories ("Structures").

Pending completion of the amalgamation of the two lots, a temporary permit has been given by Majlis Bandaraya Shah Alam for, among others, the Structures vide its letter dated 28 November 2018 and bearing reference MBSA/BGN/KB/600/SEK:32/81-2018 and is valid until 25 November 2019.

In this valuation, we have not ascribed any value to the abovementioned structures.

We have prepared this certificate which summarises our Valuation Report and outlines key factors which have been considered in arriving at our opinion of the Market Value. This letter contains all the necessary data and supporting information included in our report. For further information in relation to those contained herein, reference should be made to the said report.

Brief description of the subject property is as follows:

**IDENTIFICATION OF PROPERTY**

<b><i>Property Address</i></b>	No. 7, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan
<b><i>Property Description</i></b>	A parcel of freehold industrial land built-upon with a three (3)-storey office building and an annexed single (1)-storey factory building
<b><i>Provisional Land Area</i></b>	6,866 sq. metres (about 73,905 sq. feet or 1.7 acres)
<b><i>Gross Floor Area</i></b>	4,990.58 sq. metres (53,718 sq. feet)
<b><i>Net Lettable Area</i></b>	4,831 sq. metres (52,000 sq. feet)
<b><i>Planning</i></b>	Designated for industrial use as noted in the title
<b><i>Location of Property</i></b>	The subject property is located approximately 30 kilometres due south west of the Kuala Lumpur City Centre and about 10 kilometres due south west of the Shah Alam City Centre. The subject property is easily accessible via the Lebuhraya Shah Alam and exiting at the Kebun interchange, turning left onto

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

Our Ref : 30V171011CV

Jalan Kebun and thereafter onto Jalan Sungai Rasau 32/22, Jalan Sungai Kayu Ara 32/38, Jalan Sungai Kayu Ara 32/37 and finally onto Jalan Sungai Kayu Ara 32/39 whereby the subject property is located at the corner of the aforesaid road.

**TITLE PARTICULARS**

<b>Title No.</b>	HSD 57945
<b>Lot No.</b>	Lot PT 57353, Mukim and District of Klang, State of Selangor Darul Ehsan
<b>Tenure</b>	Freehold interest
<b>Registered Owner</b>	HPMT Industries Sdn Bhd
<b>Category of Land Use</b>	Industrial

**GENERAL DESCRIPTION*****Brief Description of the Subject Property******The Site***

The subject site is a corner detached freehold industrial land and is almost trapezoidal in shape. It is generally flat in terrain and lies slightly elevated above the level of the frontage road. It has a provisional land area of 6,866 sq. metres (about 73,905 sq. feet or 1.7 acres) as extracted from the land title.

***The Buildings***

Erected upon the site is a three-storey office building and an annexed single-storey factory as well as other ancillary buildings. They are 2 units of single-storey guard house and a TNB substation which houses a switchgear room, a TX room and a LV switch room. Part of the building (27,500 sq feet) is tenanted to Cryoquip Sdn Bhd while the balance of 24,500 sq feet is owner occupied. Since there are two occupants occupying the subject property, the three-storey office building and the annexed single-storey factory has been internally partitioned with plastered brick walls and metal deck walls on each level to accommodate the 2 occupants and each partitioned unit is identified as Unit No. 7A and Unit No. 7B. Unit No. 7A is a corner unit with access from Jalan Sungai Kayu Ara 32/37, a return frontage road, whilst Unit No. 7B is an intermediate unit with access from Jalan Sungai Kayu Ara 32/39, the lot's frontage road. The office building is constructed of reinforced concrete framework infilled with plastered brick walls and partly of glass cladding walls at the front portion and covered with metal roof deck. The factory building is constructed of steel portal framework on reinforced concrete foundations with reinforced concrete floors, metal deck wall mounted onto plastered brick walls and steel roof trusses laid over with metal roofing sheets and partly of reinforced concrete flat roof. The eaves height of the annexed single-storey factory is about 30 feet. The approximate main floor area of the subject buildings are as follows :-

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

Our Ref : 30V171011CV

<b>Three-Storey Office Building</b>	Unit No. 7A	9,230 sq. feet	857.50 sq. metres
	Unit No. 7B	9,230 sq. feet	857.50 sq. metres
	<b>Total</b>	<b>18,460 sq. feet</b>	<b>1,715.00 sq. metres</b>

<b>Annexed Single-Storey Factory</b>	Unit No. 7A	18,480 sq. feet	1,716.85 sq. metres
	Unit No. 7B	15,872 sq. feet	1,474.56 sq. metres
	<b>Total</b>	<b>34,352 sq. feet</b>	<b>3,191.41 sq. metres</b>

<b>Guard Houses</b>	48 sq. feet each	4.46 sq. metres each
<b>TNB substation which includes a switchgear room, a TX room and a LV switch room</b>	810 sq. feet	75.25 sq. metres

The buildings are noted to be generally in good decorative state of repair.

We have not been provided with any report in respect of the structural integrity or condition of the plant and machinery or service facilities within the property. After making reasonable enquiries, our approach to valuation by necessity assumes that no significant expenditure is required in respect of the repair and maintenance of the building or facilities contained therein at the present time.

**Planning Provision**

The subject property is designated for "Perusahaan" (industrial) use and the express condition stated as "Perusahaan" as noted in the title document.

The subject property has been issued with a Certificate of Fitness for Occupation dated 13<sup>th</sup> January 2009 by Majlis Bandaraya Shah Alam.

There is no breach of relevant laws, regulations, by-laws, rules and requirements relating to the subject property as temporary permit has been given by Majlis Bandaraya Shah Alam for, among others, the Structures.

**MARKET VALUE**

**Date of Valuation** : 8<sup>th</sup> April 2019

**Method of Valuation** : Cost Approach and Investment Method by Income Approach

**Cost Approach**

The Cost Approach involves the valuation of land by comparison with evidence of values of comparable land and adding to it the current replacement cost of the building less depreciation, if necessary. The current replacement cost involves the construction cost, financing charges, advertising charges, professional fees, other incidental expenses and developer's profit.

We have identified and analysed the following transactions of vacant industrial lands located in the vicinity along Jalan Bukit Kemuning as well as two plots of vacant industrial land in the Berjaya Industrial Park.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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Description	Comparable 1	Comparable 2	Comparable 3
<b>Property Type</b>	Vacant industrial land(s)		
<b>Title/Lot No.</b>	HS(D) Kekal 136781 Lot PT 129952 Mukim and District of Klang State of Selangor Darul Ehsan	Geran Mukim 8528, Lot No. 82336, Mukim and District of Klang, State of Selangor Darul Ehsan	HSD 57949, Lot No. PT 57357, Mukim and District of Klang, State of Selangor Darul Ehsan
<b>Locality of Property</b>	11 Jalan Sungai Kayu Ara 32/37, Berjaya Industrial Park, Shah Alam, Selangor Darul Ehsan	Along Jalan Bukit Kemuning Shah Alam, Selangor Darul Ehsan	Along Jalan Sungai Kayu Ara 32/37, Berjaya Industrial Park, Shah Alam, Selangor Darul Ehsan
<b>Tenure</b>	Freehold	Freehold	Freehold
<b>Land Area</b>	3,930 sq. metres (42,302 sq. feet)	9,104 sq. metres (97,995 sq. feet)	7,841 sq. metres (84,400 sq. feet)
<b>Consideration</b>	RM6,979,830/-	RM11,679,133/-	RM11,896,029/-
<b>Date of Transaction</b>	8 <sup>th</sup> November 2018	28 <sup>th</sup> June 2017	16 <sup>th</sup> December 2013
<b>Source</b>	Valuation and Property Services Department		
<b>Analysis</b>	RM165 per sq. foot	RM119 per sq. foot	RM141 per sq. foot
<b>Adjustments</b>	Downward adjustment made on size	Upward adjustment made on general location and shape/terrain	Upward adjustment made on time
<b>Adjusted Value</b>	RM156 per sq. foot	RM149 per sq. foot	RM155 per sq. foot

Based on the adjustments mentioned above to arrive at the land value, we have arrived at the adjusted land values of the comparables ranging between RM149 to RM156 per sq. foot. We are of the opinion that Comparable 1 is the best comparable as it is located about 250 metres east of the subject property and is a recent transaction. The adjusted value on Comparable 1 is RM156/- per sq. foot. Thus, we have adopted RM156/- per sq. foot for the site. As the subject property is a fully improved site, we have added RM5/- per sq. foot for improved site to cover the fencing, drains and tarmac improvement of internal service roads around the parameters of the buildings and further depreciated the site improvement at 10%.

In assessing the cost of the subject buildings, we have been guided by the JUBM and Langdon Seah Construction Cost Handbook Malaysia 2018 issued by Davis Langdon & Seah (Malaysia) Sdn Bhd in collaboration with Juru Ukur Bahan Malaysia & JUBM Sdn Bhd. We have derived the following building value and depreciation rate which are adopted in our valuation: -

Buildings	Building Value	Depreciation rate
Annexed single-storey detached factory	RM150 per sq. foot.	10%
Three-storey office building	RM150 per sq. foot.	
Ancillary buildings	RM100 per sq. foot.	



**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**



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We have adopted a depreciation rate of 10% after taking into consideration the age of the buildings currently about 9 years old as well as the condition of the buildings which are well maintained.

**Investment Method by Income Approach**

The Investment Method by Income Approach entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income. The net annual income is capitalised at a market derived net yield to arrive at the capital value of the property.

In undertaking our assessment of the value using the Investment Method by Income Approach, we have considered the current passing rental as per the Tenancy Agreement as well as current asking rentals in the vicinity, as well as the annual expenses of the subject property provided to us by the client for the past 3 years. Under this approach the property is viewed as an investment with the potential income from the existing improvements capitalised at an appropriate yield.

**Monthly Gross Rental**

The asking rentals for factories/warehouses in the vicinity range from RM1.60 to RM2.29 per sq. foot per month, depending on the type of building, built-up area and location. The current passing rental for the Unit No. 7A is at RM1.55 per sq. foot per month. We are of the opinion that the achievable gross rental rate on the reversionary term of the subject property is RM1.70 per sq. foot per month.

**Average Monthly Outgoings**

The average monthly outgoings of the subject property for the past 3 years is approximately RM0.11 per sq. foot. However, we have adopted RM0.15 per sq. foot per month in this valuation for allowance of occasional external repair. This is in line with the market average for monthly outgoings of detached factories complex/warehouse which range from RM0.12 per sq. foot per month to RM0.21 per sq. foot per month.

**Capitalisation Rates**

Our analysis revealed yields from factories/warehouses in the vicinity range from 5.00% to 6.50%. The most important factor affecting yield is the degree of risk inherent in the investment. To determine the net yield that the property would reasonably fetch, we have made appropriate adjustment for factors such as the condition of the building, location, tenancy profile and nature of business. Therefore, we are of the opinion that the achievable net yield for the subject property is 6.00% for the term period on the basis that the term period is more secured and is easily attainable. For the reversionary period, we have adopted a net yield of 6.25% to reflect the uncertainty in the future.

**Void**

The void allowance is for possible future vacancies, rent free periods and the possibility of bad debts. We have adopted a void factor of about 5% as Berjaya Industrial Park is almost fully built-up and we noted that all the factories are being occupied even during this period where the property market is soft.

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**



Our Ref : 30V171011CV

**Reconciliation of Valuation**

Cost Approach : RM19,000,000/-  
Investment Method by Income Approach : RM14,700,000/-

We are of the opinion that the Market Value of the subject property of **RM19,000,000/-** based on the Cost Approach is fair and reasonable. We have adopted the Market value based on the Cost Approach, as a primarily approach to value the subject property. The Investment Method by Income Approach is a secondary approach and is adopted as a check method of valuation. In this valuation exercise, we are in the opinion that the Cost Approach provides a fair representation market value of the subject property after taking into account of the following considerations :-

1. There are sufficient data made available to value the land and building components under the Cost Approach.
2. Under the Cost Approach, the value of the land component itself is already RM11,800,000/- based on the sale of lands within the subject development and the surrounding industrial developments indicating that the value arrived by the Investment Method does not reflect the market value of the subject property.
3. The Investment Method by Income Approach has limitations due to insufficient availability of industrial rental and outgoings evidences to justify the income stream and yield to arrive at the capital value of the property under this approach.
4. Only about 53% of total net lettable area of the subject property is presently tenanted by a non-related party which will expire in November 2019. The remaining 47% is owner-occupied. Hence the subject property is not held for investment but rather for its own use.

**Opinion of Market Value**

We assess the Market Value of the subject property, i.e. **LOT NO. PT 57353, MUKIM AND DISTRICT OF KLANG, STATE OF SELANGOR DARUL EHSAN AND HELD UNDER TITLE NO. HSD 57945, (Property Address : No. 7, Jalan Sungai Kayu Ara 32/39, Taman Berjaya, Seksyen 32, 40460 Shah Alam, Selangor Darul Ehsan)**, as at 8<sup>th</sup> April 2019, in its existing condition, free from all encumbrances, with the title held under freehold interest and being good, marketable and registrable as well as with vacant possession and subject to the existing tenancy is **RM19,000,000/- (Ringgit Malaysia: Nineteen Million Only)**.

Yours faithfully,  
**RAHIM & CO INTERNATIONAL SDN BHD**

**Sr CHEE KOK THIM, FRISM, FPEPS, MRICS, MMIPFM**  
Director  
Registered Valuer (V-325)

**ANNEXURE A: VALUATION CERTIFICATE AND UPDATED VALUATION CERTIFICATE**

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Our Ref : 30V171011CV

**RAHIM & CO INTERNATIONAL SDN BHD**

Rahim & Co is a real estate consultancy firm founded in December 1976. With a nationwide network of 20 offices, Rahim & Co provides a comprehensive range of services encompassing all aspects of real estate, including valuation, estate agency, research and properties and facilities management.

Sr Chee Kok Thim holds a Bachelor Degree in Property Administration from the University of Auckland and is the Director of Rahim & Co. Prior to joining Rahim & Co in July 1997, Sr Chee had served more than 21 years with the Valuation and Property Services Department in the Ministry of Finance, Malaysia. Sr Chee is currently an examiner and a committee member for the Test of Professional Competence of the Board of Valuers, Appraisers, Estate Agents and Property Managers Malaysia. He is a Fellow of the Royal Institution of Surveyors Malaysia, a Member of the Royal Institution of Chartered Surveyors (UK), a Fellow of PEPS and a Member of the Malaysian Institute of Property and Facility Managers. He was a past Chairman of the RISM Examination Board for many years and has been awarded the Lifetime Achievement Award by the Royal Institution of Surveyors Malaysia. Over the years he has gathered vast experience in matters relating to the real estate industry and has conducted valuations for all types of property in Malaysia and has also conducted valuations of commercial properties in London and Australia for the purpose of submission to Securities Commission Malaysia.

**ANNEXURE B: MAJOR APPROVALS, LICENCES AND PERMITS**

Details of the major approvals, licences and permits obtained by our Company for our business operations and the status of compliance are set out below:

<b>Company</b>	<b>Approving authority/ Issuer</b>	<b>Type of approvals/licences/ permits</b>	<b>Licence/Permit/ Reference no.</b>	<b>Date of issuance/ Validity</b>	<b>Major conditions imposed</b>	<b>Status of compliance</b>
HPMT Industries	MITI	Manufacturing licence for the manufacture of high speed steel and tungsten carbide cutting tools	<b>Serial no.:</b> A022046  <b>Licence no.:</b> A014371	<b>Effective date:</b> 10 January 2004  <b>Expiry date:</b> Nil	This licence is subject to the following conditions: (a) The approvals of the relevant State Government and Department of Environment (b) Sale of shares of the company must be notified to MITI	Complied
HPMT Industries	MITI	Manufacturing licence for the manufacture of high speed steel and tungsten carbide cutting tools	<b>Serial no.:</b> B0539  <b>Licence no.:</b> A015515	<b>Effective date:</b> 11 November 2005  <b>Expiry date:</b> Nil	This licence is subject to the following conditions: (a) The approvals of the relevant State Government and Department of Environment (b) Sale of shares of the company must be notified to MITI	Complied
HPMT Industries	MBSA	Municipal storage licence for: <ul style="list-style-type: none"> <li>warehouse (wholesale/ stocking) not exceeding 500 square metres</li> <li>industry/other metal production (sale/services)</li> <li>industry/other metal production (manufacture/process) (up to 500 square metres)</li> </ul>	<b>Licence account no.:</b> 032010420050001	<b>Validity:</b> 1 January 2019 to 31 December 2019	Nil	N/A



**ANNEXURE B: MAJOR APPROVALS, LICENCES AND PERMITS**

<b>Company</b>	<b>Approving authority/ Issuer</b>	<b>Type of approvals/licences/ permits</b>	<b>Licence/Permit/ Reference no.</b>	<b>Date of issuance/ Validity</b>	<b>Major conditions imposed</b>	<b>Status of compliance</b>
Herroz	MBSA	Municipal storage licence for: <ul style="list-style-type: none"> <li>warehouse (wholesale/stocking) exceeding 500 square metres</li> <li>warehouse (sale/services)</li> </ul>	<b>Licence account no.:</b> 0320113200500002	<b>Validity:</b> 1 January 2019 to 31 December 2019	Nil	N/A
Pentagon	MBSA	Municipal licence in respect of the following: <ul style="list-style-type: none"> <li>Engineering and electrical works (sale/services)</li> <li>Engineering and electrical works (build/process) (up to 500 square metres)</li> <li>Engineering and electrical works (wholesale/storage)</li> <li>Business office (less than 150 square metres)</li> <li>Lighted factory advertisement (less than 8 square metres)</li> </ul>	<b>Licence account no.:</b> L032110920170001 -(LSMT)	<b>Validity:</b> 15 July 2018 to 14 July 2019	Nil	N/A
HPMT Shenzhen	State Administration for Industry & Commerce of China	Business Licence	9144030079170039 5J	<b>Validity:</b> 16 July 2016 to 23 August 2036	Nil	N/A


**ANNEXURE B: MAJOR APPROVALS, LICENCES AND PERMITS**

<b>Company</b>	<b>Approving authority/ Issuer</b>	<b>Type of approvals/licences/ permits</b>	<b>Licence/Permit/ Reference no.</b>	<b>Date of issuance/ Validity</b>	<b>Major conditions imposed</b>	<b>Status of compliance</b>
HPMT Shenzhen	People's Government of Shenzhen	Certificate of Approval for Establishment of Enterprises with investment of Taiwan, Hong Kong, Macao and Overseas Chinese in China	<b>Code for import and export enterprise:</b> 4403791700395  <b>Approval number:</b> Shang Wai Zi Yue Shen Wai Zi Zheng [2006]0704 Hao	<b>Validity:</b> 14 August 2006 to 23 August 2036	Nil	N/A
HPMT Shenzhen	Shenzhen (Luohu) Economic Promotion	Foreign Trade Operator Registration Form	<b>Licence no.:</b> 4403791700395  <b>Serial no.:</b> 00467868	N/A	Nil	N/A
HPMT GmbH	Stadt Moelln (municipality of the city of Moelln)	Trade licence	Nil	Indefinite	Nil	N/A
MTC Tooling	Inland Revenue Department of Hong Kong	Business Registration Certificate	30963317-000-05-18-6	<b>Validity:</b> 17 May 2018 to 16 May 2019	Nil	N/A


**ANNEXURE C: BRAND NAMES, TRADEMARKS, PATENTS, LICENCE AGREEMENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS****1. LOCAL TRADEMARKS**

No.	Company	Trademark/Patent no./ Description of intellectual property right	Class	Application no./ trademark no.	Approving authority	Status/Registration validity	Other salient provisions
1	HPMT Industries		7	04007423	Intellectual Property Corporation of Malaysia ("MyIPO")	<b>Registered date:</b> 1 June 2004  <b>Expiry date:</b> 1 June 2024	Nil
2	HPMT Industries		7	04007424	MyIPO	<b>Registered date:</b> 1 June 2004  <b>Expiry date:</b> 1 June 2024	Nil

**2. FOREIGN TRADEMARKS**


No.	Company	Trademark/Patent no./ Description of intellectual property right	Class	Application no./ trademark no.	Approving authority	Status/Registration validity	Other salient provisions
1	HPMT Industries		7	004190914	European Union intellectual Property Office ("EUIPO")	<b>Registered date:</b> 10 December 2014  <b>Expiry date:</b> 10 December 2024	Nil

## ANNEXURE C: BRAND NAMES, TRADEMARKS, PATENTS, LICENCE AGREEMENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS

No.	Company	Trademark/Patent no./ Description of intellectual property right	Class	Application no./ trademark no.	Approving authority	Status/Registration validity	Other salient provisions
2	HPMT Industries		7	004902045	EUIPO	<b>Registered date:</b> 10 February 2016  <b>Expiry date:</b> 10 February 2026	Nil
3	HPMT Industries	 	6 & 7	2010 25001	Turkey Patent and Trademark Office	<b>Registered date:</b> 2 June 2011  <b>Expiry date:</b> 15 April 2020	Nil
4	HPMT Industries		7	1111660	IP Australia	<b>Registered date:</b> 3 May 2006  <b>Expiry date:</b> 3 May 2026	Nil
5	HPMT Industries		7	4752387	China Trademark Office under State Administration for Industry and Commerce	<b>Registered date:</b> 21 April 2008  <b>Expiry date:</b> 20 April 2028	Nil



**ANNEXURE C: BRAND NAMES, TRADEMARKS, PATENTS, LICENCE AGREEMENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS**

No.	Company	Trademark/Patent no./ Description of intellectual property right	Class	Application no./ trademark no.	Approving authority	Status/Registration validity	Other salient provisions
6	HPMT Industries		7	D002016033863	Direktorat Jenderal Kekayaan Intelektual, Indonesia	Pending registration  <b>Application date:</b> 20 July 2016	Nil

## **ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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### **1. MALAYSIA**

#### **Industrial Co-ordination Act 1975**

Pursuant to the Industrial Co-ordination Act 1975 and the Industrial Co-ordination (Exemption) Order 1976 (“ICA”), a person engaged in a manufacturing entity and with shareholders’ funds of RM2,500,000 and above and which engages 75 or more full-time employees must acquire a manufacturing licence issued by MITI.

The ICA defines “manufacturing activity” as the “making, altering, blending, ornamenting, finishing or otherwise treating or adapting any articles or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade”.

#### **Factories and Machinery Act 1967 (“FMA”)**

The Factories and Machinery Act 1967 provides for the control of factories with respect to matters relating to the safety, health and welfare of persons working in a factory and for matters connected therein. The FMA and the regulations enacted under it is the primary legislation regulating occupational, safety and health improvement in the manufacturing industry, apart from the Occupational Safety and Health Act 1994.

Under the FMA, the Group has a duty to maintain the standards of safety, health and welfare of its factories and factory workers, and these includes provisions requiring the taking of precautions against fire, the proper maintenance of machinery, that every factory shall be kept in a clean state, the taking of effective and suitable provision for securing and maintaining adequate ventilation and that effective provision shall be made for securing and maintaining sufficient and suitable lightning and the mandatory reporting of accidents and dangerous occurrences to the Inspector of Factories and Machineries.

The general penalty imposed upon the commission of an offence under the FMA or any regulation made thereunder is a fine not exceeding RM50,000 or to imprisonment for a term not exceeding one year or both.

#### **Occupational Safety and Health Act 1994 (“OSHA”)**

Under the OSHA, the Group has a general duty to ensure, so far as is practicable, the safety, health and welfare at work of all its employees, and the matters to which such duty extends includes the following:

- the provision and maintenance of plants and systems of work that are, so far as is practicable, safe and without risks to health;
- the provision of such information, instruction, training and supervision as is necessary to ensure, so far as is practicable, the safety and health at work of all its employees;
- so far as is practicable, the maintenance of a place of work that is in a safe condition and without risks to health; and
- the provision of adequate facilities with regards to the welfare of its employees at work.

The Group also has a duty to formulate a general safety and health policy for its employees at work and to bring the policy (and any revisions of it) to the notice of all of its employees.

## **ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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The Group is also under a duty under the OSHA to ensure, so far as is practicable, that other persons, not being its employees, who may be affected are not thereby exposed to risks to their safety or health from the conduct of their undertakings.

A person who breaches any of the abovementioned statutory duties as imposed by OSHA shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding two years or both.

### **Foreign exchange controls**

#### ***Payment in foreign currency between resident and non-resident***

Part 5 of the Notice 4 of the current foreign exchange rules (“**FER**”) issued by the Foreign Exchange Administration (“**FEA**”), provides for the rules for payment in foreign currency (“**Notice 4**”). Under Notice 4, a resident is allowed to make or receive payment to or from a non-resident in foreign currency for any purpose.

However, such payment cannot be made or received by a resident to or from a non-resident in circumstances where the purpose of payment is for –

- (i) a derivative denominated in foreign currency offered by the resident unless it has been approved by BNM or otherwise allowed under the FER;
- (ii) a derivative denominated in foreign currency offered by the non-resident; or
- (iii) it is for a derivative denominated in or referenced to ringgit unless it has been approved by BNM or otherwise allowed under the FER.

Notwithstanding the provision that payment may not be made or received by a resident to or from a non-resident if the purpose was for a derivative denominated in foreign currency offered by a non-resident, paying in foreign currency is allowed in the following cases –

- (i) if it is for a derivative denominated in foreign currency, other than exchange rate derivative with reference to ringgit, purchased by a licensed onshore bank for its own account; or
- (ii) an interest rate swap denominated in foreign currency between a resident and Labuan banks to manage interest rate exposure arising from borrowing in foreign currency as set out in Part A of Notice 2 of the FER; or
- (iii) a derivative denominated in foreign currency, other than exchange rate derivatives, offered on a Specified Exchange stipulated under the CMSA undertaken through a resident futures broker by a resident with firm commitment.

Pursuant to Notice 4, a resident is allowed to receive payment in foreign currency from a non-resident in any manner if the purpose of payment is for the settlement of services.

#### ***Investment in foreign currency assets by a resident***

Residents with domestic ringgit borrowing who are converting ringgit into foreign currency are free to invest abroad:

- (i) Up to RM50 million equivalent in aggregate for the group of resident entities with parent-subsidiary relationship per calendar year; and
- (ii) Up to RM1 million equivalent per calendar year in aggregate for resident individuals.

## **ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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Resident entities are free to undertake direct investments abroad using proceeds from foreign currency borrowings obtained from licensed onshore banks or licensed international Islamic banks.

### ***Export of goods***

All export proceeds must be repatriated to Malaysia in full as per the sales contract which must not exceed six months from the date of export.

Settlement with the non-residents can be undertaken both in ringgit or foreign currency.

Approval is required for residents –

- (i) to receive the export proceeds later than six months from the date of export; or
- (ii) to offset the export proceeds against other payables due to non-residents.

### **Dividend payments**

Dividends paid to a shareholder of a Malaysian company are not subject to any withholding tax.

### **Employment**

#### ***Minimum wages***

Malaysia has implemented a minimum wage policy that raised the basic wages of all employees (except for domestic servants) to RM1,100 per month in Peninsular Malaysia under the Minimum Wages Order 2018.

#### ***Employment Provident Fund and SOCSO Contributions***

Under the Employees Provident Fund Act 1991 (the “**EPF Act**”), a company is liable to pay contributions in respect of any person whom it has engaged to work under a contract of service or apprenticeship. The Company must contribute within the stipulated period, which is on or before the 15th of the month following the wage month. All employees of a company, except for those excluded from the application of the EPF Act, are entitled to contributions that are no less than at the rate prescribed by the EPF Act.

Social security is provided for all employees under the Employees’ Social Security Act 1969 (the “**SOCSO Act**”). It is mandatory for a company and its employees to contribute to the fund at the rate prescribed by the SOCSO Act to the Social Security Organization.

### **Environmental protection**

#### ***Scheduled Wastes***

In Malaysia, the disposal of scheduled waste is governed by the Environmental Quality (Scheduled Wastes) Regulations 2005. The Environmental Quality (Scheduled Wastes) Regulations 2005 allows scheduled wastes to dispose of at prescribed premises only. Scheduled wastes shall be treated at prescribed premises only or on-site treatment facilities. Scheduled wastes have to be properly stored, delivered to and received at prescribed premises for treatment and disposal.

## **ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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### **2. HONG KONG**

#### **The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong)**

The Business Registration Ordinance requires every person, a company or individual, carrying on any business in Hong Kong to register with the Inland Revenue Department and obtain a business registration certificate within one month of the commencement of the business and to display a valid business registration certificate at the place of business.

#### **Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong) (the "IAE Registration Regulations")**

Under regulations 4 and 5 of the IAE Registration Regulations, every person who imports or exports any article other than an exempted article shall lodge with the Commissioner of Customs and Excise (the "**C&E Commissioner**") an accurate and complete import or export declaration within 14 days after the date of import or export.

#### **The Trade Descriptions Ordinance (Cap. 362) (the "TDO")**

The TDO prohibits false trade descriptions, false, misleading or incomplete information and false marks and misstatements in respect of goods provided in the course of trade. It is an offence to apply a false trade description to any goods, or supply any goods which a false trade description is applied, or possess for sale, trade or manufacture any goods which a false trade description is applied. False and misleading trade descriptions of products in advertisements are also prohibited.

Section 2 of the TDO provides, among others, that "trade description" in relation to goods means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognised by any person, price, their being of the same kind as goods supplied to a person, price, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed or reconditioned), with respect to any goods or parts of the goods; and in relation to services means an indication, direct or indirect, and by whatever means given, of certain matters (including, among other things, nature, scope, quantity, fitness for purpose, method and procedures, availability, the person by whom the service is supplied, after-sale service assistance and price).

Under section 7 of the TDO, any person who in the course of any trade or business applies a false trade description to any goods or supplies or offers to supply any goods to which a false trade description is applied commits an offence.

#### **Sales of Good Ordinance (Chapter 26 of the Laws of Hong Kong) (the "SOGO") and Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) (the "CECO")**

The SOGO is the main governing law in Hong Kong in relation to sale of goods. It provides that:

- (i) under section 15 of the SOGO, where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description;

## **ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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- (ii) under section 16 of the SOGO, where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards defects specifically drawn to the buyer's attention before the contract is made; or (ii) if the buyer examines the goods before the contract is made, as regards defects which examination ought to reveal; or (iii) if the contract is a contract for sale by sample, as regards defects which would have been apparent on a reasonable examination of the sample; and
- (iii) under section 17 of the SOGO, where there is a contract for sale by sample, there are implied conditions that (i) the bulk shall correspond with the sample in quality, (ii) the buyer shall have a reasonable opportunity of comparing the bulk with the sample, and (iii) the goods shall be free from any defects, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

Pursuant to section 57 of the SOGO, where any right, duty or liability arises under a contract of sale of goods by implication of law, it may (subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) (the "CECO")) be negated or varied by express agreement, or by course of dealings between the parties, or by usage if the usage is such as to bind both parties to the contract.

### **Employment Ordinance (Chapter 57 of the Laws of Hong Kong)**

The Employment Ordinance provides for the protection of the wages of employees and regulates general employment conditions. All employees covered by the Employment Ordinance, irrespective of their hours of work, are entitled to basic protection under the Employment Ordinance, including, among others, payment of wages and granting of statutory holidays. Employees who are employed under a continuous contract are further entitled to such benefits as rest days, paid annual leave, sickness allowance, severance payment and long service payment.

### **Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)**

Under the Mandatory Provident Fund Schemes Ordinance, the employers shall participate in a Mandatory Provident Fund ("MPF") Scheme for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Employers are required to enrol their regular employees (except for certain exempted persons) aged between at least 18 but under 65 years of age and employed for 60 days or more in a MPF scheme within the first 60 days of employment.

### **Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "ECO")**

Under the ECO, all employers are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees).

**ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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**3. GERMANY****Foreign exchange control and dividend payment**

There are no foreign currency exchange/administration rules applicable to foreign-owned enterprises.

Capital gains tax (*Kapitalertragssteuer*) applies with respect to dividend payments made by a German limited liability company (*GmbH*) to a shareholder. The capital gains tax generally amounts to 25%. However, different rates might apply due to double taxation treaties. The double tax treaty entered into between Germany and Malaysia provides that the tax on dividends shall only amount to 5% of the gross amount of the dividends paid, if the beneficial owner is a company (other than a partnership) which holds directly at least 10% of the capital of the company paying the dividends.

**Import and export of goods regulation**

Germany foreign trade law is characterized by the principle of deregulation (*Liberalisierungsprinzip*). Hence, the movement of goods, services and capital is generally free.

However, importing goods into Germany from countries outside of the European Union is, *inter alia*, subject to the EU Customs Code (*Regelwerk des Zollkodex der Union*), corresponding implementing provisions and the Federal Act on Foreign Trade (*Außenwirtschaftsgesetz*). The amounts of customs charges are established by acts of the European Union and are applied identically throughout. In addition to custom charges, import sales tax (*Einfuhrumsatzsteuer*) applies. Such tax currently amounts to 19%.

The export of certain goods requires prior authorization of the Federal Office of Economics and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle*). Authorization requirements either follow from the nature of goods exported, their envisaged use or their recipient.

Note that Germany recently tightened its rules regarding foreign investments in response to increased security concerns in connection with foreign direct investments in German technology companies. The revised Federal Act on Foreign Trade specifies German security interests to be reviewed by the Federal Ministry for Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie*) in cases where shareholdings in any of the following companies are acquired: (i) critical infrastructure (e.g. energy, information technology, health, water, etc.), (ii) companies developing or changing industry-specific software for the operation of critical infrastructure; (iii) companies providing cloud computing services above a certain volume and (iv) companies that are engaged in the area of telematics infrastructure.

**German company registration requirement for company with foreign shareholder**

There are no specific registration requirements that pertain to a company with a foreign shareholder. However, along with the Anti-Money Laundering Act (*Geldwäschegesetz*), effective as of 26 June 2018, came the introduction of the new electronic transparency register. Accordingly, legal persons must obtain, hold, update and electronically submit information about their beneficial owners to the transparency register. The obligation to communicate the necessary information to the transparency register applies to the legal representatives of the respective corporation.

Every individual and/or entity in Germany requires a trade licence in order to do business. There are no onerous conditions which are applicable to receive such licence.



**ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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**Sale of goods / product quality**

The German law on sales (*Kaufrecht*) regulates the legal relationship between buyers and sellers. If the purchaser is a private consumer, a mandatory warranty and remedy regime applies, which provides for specific rules with respect to revocation rights, curing a defect, reducing the purchase price, etc. (*Verbraucherschutzrecht*). To the extent only enterprises/commercial clients are involved, such regime can widely be excluded. Hence, it is possible to sell products under exclusion of warranties or “sold as seen”.

**Mandatory general employee basic protection under labour law / social insurance**

Relations between German employers and employees are extensively regulated under German labour and employment law. Applicable rules follow from the German Civil Code (*Bürgerliches Gesetzbuch*), the Works Constitution Act (*Betriebsverfassungsgesetz*), the Protection Against Unfair Dismissals Act (*Kündigungsschutzgesetz*), the General Equal Treatment Act (*Allgemeines Gleichbehandlungsgesetz*), the Federal Paid Leave Act (*Bundesurlaubsgesetz*), to name just a few. German labour and employment law is strongly biased in favor of employees. In the following, certain noteworthy features are described.

All weekdays excluding Sundays and public holidays are considered to be working days. However, German employees normally work from Monday to Friday (five-day week). Working on Sundays and public holidays is generally prohibited. However, the German law on working hours provides for several exceptions.

German labour and employment law grants a statutory claim for 20 working days' vacation per calendar year for employees who work a normal five-day week (i.e., four weeks' vacation). However, it is more typical for an employee to receive between 25 and 30 vacation days per calendar year, depending on seniority and the type of business.

Female employees are entitled to full paid maternity leave (starting no later than six weeks before the expected due date – depending on the mother's and baby's health situation and the work performed by the woman – and ending eight weeks after childbirth).

In case an employee wants to terminate an employment relationship, the employer must observe the applicable notice period, which is ordinarily determined by law (between four weeks and seven months, depending upon the length of employment).

The Protection Against Unfair Dismissals Act restricts termination of employment if the employee has been employed for more than six months when the notice of termination is given. This act applies, however, only with regard to companies that employ more than ten employees. If the act is applicable, the employee may be terminated only if “socially justified”. A “socially justified” termination will usually be based on person-related (e.g., long-term illness), conduct-related (e.g. repeated breaches of employment terms after prior warning) or operational reasons (e.g. the shutdown of a business).

The mandatory Social Security System in Germany consists of health insurance, home care and nursing insurance, pension insurance and unemployment insurance. Generally, it is mandatory that all employees are insured by the German Social Security System. Health, home care and nursing, unemployment and pension insurance premiums are paid equally by the employer and by the employee. Premiums amount to approximately 22% of the employees' gross salary for each the employer and the employee.



**ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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**4. CHINA****Administrative Regulations of China on Foreign Exchange Control**

Pursuant to the *Regulations on Foreign Exchange Control of China* promulgated by the State Council on 29 January 1996, effective on 1 April 1996 and amended and became effective on 5 August 2008, CNY is freely convertible without the approval from the State Administration of Foreign Exchange (the “SAFE”) or its local counterpart for current account transactions, including payment of dividends to foreign investors, payment of interests, international trade of goods, service-related foreign exchange transactions, on a basis of true and lawful transactions, while capital account items including direct investments and repayment of foreign currency loans are subject to significant foreign exchange control and require the prior approval of the SAFE or its local counterpart and/or registration with the authority.

On 9 June 2016, the SAFE promulgated the *Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts* (the “SAFE Circular 16”). According to the SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency into CNY on self-discretionary basis. SAFE Circular 16 allows all foreign invested enterprise across China to fully convert (subject to further adjustment at discretion of SAFE) their foreign currency capital (which has been processed through the equity interest confirmation procedure of SAFE for capital contribution in cash or registered by a bank under system of SAFE for account-crediting for such capital contribution) into CNY at their own discretion without providing various supporting documents. However, to use the converted CNY, a foreign invested enterprise still needs to provide supporting documents and goes through the review process with the banks for each withdrawal. A negative list with respect to the usage of the capital and CNY proceeds through the aforementioned settlement procedure is set forth in the SAFE Circular 16.

**Dividend payments**

According to the *Enterprise Income Tax Law* and the *Enterprise Income Tax Regulation*, the profits of a foreign-invested enterprise that are distributed to its immediate holding company outside China are subject to a withholding tax rate of 10%. China and the government of Hong Kong signed the Agreement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes on 21 August 2006. According to the Arrangement, the 5% withholding tax rate applies to dividends paid by a China company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the China company. The 10% withholding tax rate applies to dividends paid by a China company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the China company.

**Import and export of goods regulation**

Pursuant to the *Customs Law of China* promulgated by the Standing Committee of the National People’s Congress (the “SCNPC”) on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, respectively, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

**ANNEXURE D: MATERIAL REGULATORY REQUIREMENTS**

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**Regulations relating to Wholly Foreign-Owned Enterprise**

Under the *Wholly Foreign-Owned Enterprise Law of China* promulgated in 1986 and last amended in 2016, and the *Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of China*, which was promulgated in 1990 and was last amended on February 19, 2014, an application for establishing a wholly foreign-owned enterprise shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of China before the approval certificate is issued. Within 90 days of the date of receipt of an application, the examination and approval authority shall decide whether or not to grant the approval. After application for the establishment of a wholly foreign-owned enterprise is approved by the Examination and Approval Authority, the foreign investors shall, within 30 days of the date of receipt of the approval certificate, submit registration to, and collect the business licence from the administrative authority for industry and commerce.

**Product Quality Law of China**

The principal legal provisions governing product liability are set out in the *Product Quality Law of China*, which was last amended on and became effective from 29 December 2018. The *Product Quality Law of China* is applicable to all activities of production and sale of any product within the territory of China, and the producers and sellers shall be liable for product quality in accordance with the *Product Quality Law*.

On 26 December 2009, the SCNPC of China promulgated the China Tort Liability Law, which became effective from 1 July 2010. Producers shall bear liability for damage caused to others by their defective products, and for such damage, the injured party may seek compensation from either the producer or the seller. Where the product defect is caused by the producer, the seller may, after paying compensation, claim against the producer for the same, and vice versa.

**Labour Law of China**

The *Labour Law of China* was promulgated by the SCNPC on 5 July 1994 and became effective on 1 January 1995 and amended with effect from 29 December 2018. The *Labour Contract Law of China* was promulgated by the SCNPC on 29 June 2007 and became effective as of 1 January 2008 and was amended on 28 December 2012 with effect from 1 July 2013. Pursuant to these laws, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises and employees. The salaries paid by enterprises to their employees shall not be lower than the local minimum salary standard.

**Social Insurance and Housing Provident Fund**

Employers in China are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurances) and the housing fund for employees in accordance with the *Social Insurance Law of China* adopted by the SCNPC on 28 October 2010 and became effective on 1 July 2011 and amended with effect from 29 December 2018, *Regulations on Work-Related Injury Insurance* amended on 20 December 2010 and became effective on 1 January 2011, the *Interim Measures Concerning Maternity Insurance for Employees in Enterprises* became effective on 1 January 1995, the *Interim Regulations on Levying Social Insurance Premiums* became effective on 22 January 1999 and amended with effect from 24 March 2019, the *Order of the Ministry of Labour and Social Security on Promulgation of the Tentative Rules for Administration of Social Insurance Registration* became effective on 19 March 1999 and the *Administrative Regulations on the Housing Provident Fund* became effective on 3 April 1999 and amended and became effective on 24 March 2019.