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**APPENDIX I**

**ACCOUNTANT’S REPORT**

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*The following is the text of a report received from the Company’s reporting accountant, BDO Limited, Certified Public Accountant, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 “[REDACTED] and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.*



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[REDACTED]

The Directors  
Worldgate Global Logistics Ltd  
Ample Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Worldgate Global Logistics Ltd (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the two years ended 31 December 2014 and 2015 (the “Track Record Period”), the combined statements of financial position of the Group as at 31 December 2014 and 2015, together with summary of significant accounting policies and other explanatory notes thereto (the “Financial Information”), prepared on the basis of presentation set forth in Note 2 of Section II in this report below, for inclusion in the document of the Company dated 28 June 2016 in connection with the proposed [REDACTED] of the shares of the Company on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Document”).

The Company, which acts as an investment holding company, was incorporated in the Cayman Islands as an exempted company with limited liability on 18 February 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Through a group reorganisation, as more fully explained in the Section headed “History, Reorganisation and Corporate Structure” in the Document (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 17 June 2016. The Company has not carried out any business since the date of incorporation saved for the Reorganisation.

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At the date of this report, the Company has the following subsidiaries, all of which are private limited liability companies, particulars of which are set out below:

Name of the subsidiary	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group		Principal activities
			Directly	Indirectly	
Worldgate International Investment Limited (“Worldgate International”)	British Virgin Islands (“BVI”) 2 October 2015	US\$100	100%	N/A	Investment holding
Gallant Pride Limited (“Gallant Pride”)	BVI 1 July 2015	US\$50,000	N/A	100%	Investment holding
Billion Oriental Limited (“Billion Oriental”)	BVI 1 July 2015	US\$50,000	N/A	100%	Investment holding
Superb Vantage Limited (“Superb Vantage”)	BVI 7 July 2015	US\$50,000	N/A	100%	Investment holding
Dong Tai Logistics Holdings Limited (“Dong Tai BVI”)	BVI 30 March 2015	US\$1	N/A	100%	Investment holding
Worldgate Express Services Sdn. Bhd. (“Worldgate Express”)	Malaysia 25 November 1999	RM5,000,000	N/A	100%	Freight forwarder
My Forwarder International Sdn. Bhd. (“My Forwarder”)	Malaysia 6 May 2005	RM1,000,000	N/A	100%	Freight forwarder
Freight Transport Network Sdn. Bhd. (“Freight Transport”)	Malaysia 8 January 2010	RM1,000,000	N/A	100%	Freight forwarder
Dong Tai Logistics (Hong Kong) Holdings Limited (“Dong Tai HK”)	Hong Kong 20 April 2015	HK\$10,000	N/A	100%	Provide supporting services to other Group’s entities
Worldgate Haulage Services Sdn. Bhd. (“Worldgate Haulage”)	Malaysia 18 February 2016	RM500,000	N/A	100%	Provision of trucking and haulage services

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company, Worldgate Haulage and Dong Tai HK as it is newly incorporated and has not been involved in any significant business transactions except for the Reorganisation.

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No audited financial statements have been prepared for Worldgate International, Gallant Pride, Billion Oriental, Superb Vantage and Dong Tai BVI since they are not subjected to any statutory audit requirements under their jurisdictions of incorporation.

The statutory financial statements of the Company’s subsidiaries established in Malaysia were prepared in accordance with Malaysia Financial Reporting Standards issued by Malaysian Accounting Standards Board and International Financial Reporting Standards issued by International Accounting Standards Board and were audited by:

<u>Name of subsidiary</u>	<u>Financial year</u>	<u>Name of certified public accountants</u>
Worldgate Express	Year ended 31 December 2014	UHY, Chartered Accountants
	Year ended 31 December 2015	BDO Malaysia (AF0206)
My Forwarder	Year ended 31 December 2014	UHY, Chartered Accountants
	Year ended 31 December 2015	BDO Malaysia (AF0206)
Freight Transport	Year ended 31 December 2014	UHY, Chartered Accountants
	Year ended 31 December 2015	BDO Malaysia (AF0206)

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Track Record Period (the “Underlying Financial Statements”) on the basis of presentation as set out in Note 2 to Section II below and the accounting policies set out in Note 4 of Section II below which are in conformity with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements with no adjustment made thereon.

**RESPONSIBILITY**

The directors of the Company are responsible for the contents of the Document including the preparation and true and fair presentation of the Financial Information in accordance with the basis of presentation set out in Note 2 to the Financial Information below and the accounting policies set out in Note 4 of Section II below and the Rules Governing the [REDACTED] of Securities on the GEM of the Stock Exchange (the “GEM [REDACTED] Rules”), and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an independent opinion on the Financial Information based on our procedures and to report our opinion to you.

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**BASIS OF OPINION**

For the purpose of this report, we have carried out audited procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by HKICPA and have examined the Financial Information of the Group and carried out appropriate procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “[REDACTED] and the Reporting Accountant” issued by the HKICPA. For the purpose of this report, no adjustment to the Financial Information is considered necessary.

**OPINION**

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis of presentation set out in Note 2 to the Financial Information below and in accordance with the accounting policies set out in Note 4 to the Financial Information below, gives a true and fair view of the financial position of the Group as at 31 December 2014 and 2015 and of the financial performance and cash flows of the Group for the Track Record Period.

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**I. FINANCIAL INFORMATION**

**Combined Statements of Comprehensive Income**

*For the years ended 31 December 2014 and 2015*

	<i>Notes</i>	<u>2014</u> RM	<u>2015</u> RM
Revenue	7	60,374,822	83,043,893
Cost of sales		<u>(46,988,681)</u>	<u>(62,230,611)</u>
Gross profit		13,386,141	20,813,282
Other revenue	8	897,485	2,121,676
Administrative expenses		(7,921,370)	(11,787,616)
Finance costs	14	<u>(611,027)</u>	<u>(1,055,842)</u>
Profit before income tax expense	9	5,751,229	10,091,500
Income tax expense	15	<u>(1,875,787)</u>	<u>(3,122,032)</u>
Profit for the year		3,875,442	6,969,468
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translation to profit or loss		<u>—</u>	<u>(2,308)</u>
Total comprehensive income for the year		<u><u>3,875,442</u></u>	<u><u>6,967,160</u></u>

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**Combined Statements of Financial Position**

*As at 31 December 2014 and 2015*

	<i>Notes</i>	<u>2014</u> RM	<u>2015</u> RM
<b>Non-current assets</b>			
Property, plant and equipment	17	21,862,424	25,103,098
Prepayment for acquisition of property, plant and equipment		<u>416,500</u>	<u>416,500</u>
<b>Total non-current assets</b>		<u>22,278,924</u>	<u>25,519,598</u>
<b>Current assets</b>			
Trade and other receivables	18	13,446,000	19,293,015
Amounts due from directors	19(a)	530,094	5,972
Amounts due from shareholders	19(b)	—	7,756,560
Amounts due from related companies	20	2,178,895	—
Tax recoverable		—	526
Cash and cash equivalents		<u>5,365,722</u>	<u>15,887,100</u>
<b>Total current assets</b>		<u>21,520,711</u>	<u>42,943,173</u>
<b>Current liabilities</b>			
Trade and other payables	21	7,245,968	14,384,435
Bank borrowings, secured	22	1,096,369	950,012
Current tax liabilities		405,507	1,715,503
Finance lease obligations	24	<u>1,879,941</u>	<u>1,727,777</u>
<b>Total current liabilities</b>		<u>10,627,785</u>	<u>18,777,727</u>
<b>Net current assets</b>		<u>10,892,926</u>	<u>24,165,446</u>
<b>Total assets less current liabilities</b>		<u>33,171,850</u>	<u>49,685,044</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	23	530,832	935,874
Bank borrowings, secured	22	11,156,643	14,152,594
Finance lease obligations	24	<u>4,975,579</u>	<u>4,291,329</u>
<b>Total non-current liabilities</b>		<u>16,663,054</u>	<u>19,379,797</u>
<b>Net assets</b>		<u>16,508,796</u>	<u>30,305,247</u>
<b>Capital and reserves</b>			
Share capital	25	7,000,000	7,000,429
Reserves	26	<u>9,508,796</u>	<u>23,304,818</u>
<b>Total equity</b>		<u>16,508,796</u>	<u>30,305,247</u>

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**Combined Statements of Changes in Equity**

*For the years ended 31 December 2014 and 2015*

	<b>Reserves</b>				<b>Total</b>
	<b>Share capital</b>	<b>Share</b>	<b>Exchange</b>	<b>Retained</b>	
	<b>(Note 25)</b>	<b>premium</b>	<b>reserve</b>	<b>earnings</b>	
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Balance at 1 January</b>					
<b>2014</b>	1,900,000	—	—	10,733,354	12,633,354
Profit for the year	—	—	—	3,875,442	3,875,442
Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	—	3,875,442	3,875,442
Issue of bonus shares	5,100,000	—	—	(5,100,000)	—
<b>Balance at 31 December</b>					
<b>2014 and 1 January</b>					
<b>2015</b>	<u>7,000,000</u>	<u>—</u>	<u>—</u>	<u>9,508,796</u>	<u>16,508,796</u>
Profit for the year	—	—	—	6,969,468	6,969,468
Other comprehensive income	—	—	(2,308)	—	(2,308)
Total comprehensive income	—	—	(2,308)	6,969,468	6,967,160
Issuance of [REDACTED] related to [REDACTED] investment	429	9,972,288	—	—	9,972,717
Dividends recognised as distribution ( <i>Note 10</i> )	—	—	—	(3,143,426)	(3,143,426)
<b>Balance at 31 December</b>					
<b>2015</b>	<u>7,000,429</u>	<u>9,972,288</u>	<u>(2,308)</u>	<u>13,334,838</u>	<u>30,305,247</u>

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**Combined Statements of Cash Flows**

*For the years ended 31 December 2014 and 2015*

	<i>Notes</i>	<u>2014</u>	<u>2015</u>
		<b>RM</b>	<b>RM</b>
<b>Cash flows from operating activities</b>			
Profit before income tax		5,751,229	10,091,500
Adjustments for:			
Depreciation of property, plant and equipment		1,457,165	2,595,533
Gain on disposal of property, plant and equipment		(15,134)	(222,327)
Unrealised gain on foreign exchange		(406,414)	(996,940)
Write-off of property, plant and equipment		—	265,940
Write-off of loans and receivables		27,836	242,281
Interest income	8	(1,043)	(42,240)
Finance costs	14	<u>611,027</u>	<u>1,055,842</u>
<b>Operating profit before working capital changes</b>		7,424,666	12,989,589
Increase in trade and other receivables		(2,374,151)	(5,977,383)
Increase in trade and other payables		<u>3,594,829</u>	<u>7,274,814</u>
<b>Cash generated from operations</b>		8,645,344	14,287,020
Interest paid		(611,027)	(1,055,842)
Income taxes paid		<u>(1,364,078)</u>	<u>(1,407,520)</u>
<b>Net cash generated from operating activities</b>		<u>6,670,239</u>	<u>11,823,658</u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(13,236,028)	(4,931,907)
Proceeds from disposal of property, plant and equipment		383,801	225,527
(Increase)/decrease in amounts due from related companies		(1,007,429)	2,178,895
Interest received		<u>1,043</u>	<u>42,240</u>
<b>Net cash used in investing activities</b>		<u>(13,858,613)</u>	<u>(2,485,245)</u>

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	<i>Notes</i>	<u>2014</u>	<u>2015</u>
		RM	RM
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		12,372,237	3,959,930
Repayment of bank borrowings		(765,567)	(1,110,336)
(Increase)/decrease in amounts due from directors		(220,520)	524,122
Dividends paid		—	(3,143,426)
Subscription of [REDACTED]		—	2,213,849
Repayment of finance lease obligations		<u>(1,697,018)</u>	<u>(2,009,854)</u>
<b>Net cash generated from financing activities</b>		<u>9,689,132</u>	<u>434,285</u>
<b>Net increase in cash and cash equivalents</b>		2,500,758	9,772,698
<b>Effects of exchange rate changes on cash and cash equivalents</b>		290,978	748,680
<b>Cash and cash equivalents at beginning of year</b>		<u>2,573,986</u>	<u>5,365,722</u>
<b>Cash and cash equivalents at end of year</b>	34	<u><u>5,365,722</u></u>	<u><u>15,887,100</u></u>

## **II. NOTES TO THE FINANCIAL INFORMATION**

### **1. GENERAL**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 February 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office and the principal place of business is disclosed in the section “Corporate Information” in the Document.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (“functional currency”). The principal activities of the Group are expressed in Malaysian Ringgit (“RM”). Accordingly, the Group uses RM as its reporting currency.

As at 20 June 2016, the latest practicable date, the conversion rate between RM and Hong Kong dollar was RM1.00 to HK\$1.90.

### **2. REORGANISATION AND BASIS OF PRESENTATION**

The companies now comprising the Group underwent a series of reorganisation. Prior to the Reorganisation, the entire equity interests of Worldgate Express, My Forwarder and Freight Transport were directly held by two individuals, namely Mr. Lee Chooi Seng (“Mr. Lee”) and Mr. Chin Seng Leong (“Mr. Chin”) (collectively referred to as the “Controlling Shareholders”). Worldgate Express, My Forwarder and Freight Transport were beneficially and wholly-owned by the Controlling Shareholders collectively.

On 9 October 2015, RLDC Investment Holdings Limited (the “RLDC Investment”) was incorporated in the BVI and on 28 October 2015, 25,000 shares of US\$1.00 each were allotted and issued to each of the Controlling Shareholders.

On 2 October 2015, Worldgate International was incorporated in the BVI and on 28 October 2015, 74 shares of US\$1.00 each were allotted and issued to RLDC Investment at a consideration of RM28,178,800 (or equivalent to HK\$51,230,769).

The Company was incorporated in the Cayman Islands on 18 February 2016. The initial authorised share capital of the Company was [REDACTED] divided into [REDACTED] shares of HK\$0.01 each. Upon incorporation, one nil paid subscriber share (the “Initial Share”) was allotted and issued to its initial subscriber. On the same day, the initial subscriber, transferred its 1 Initial Share to RLDC Investment at the direction of the Controlling Shareholders for cash at par value.

On 28 October 2015, Upright Plan Limited (“Upright Plan”) subscribed for 13 shares in Worldgate International, representing 13% of the entire issued share capital of Worldgate International on a fully diluted basis in cash for RM4,986,359 (or equivalent to HK\$9,000,000).

On 28 October 2015, Champion Ascent Limited (“Champion Ascent”) subscribed for 13 shares in Worldgate International, representing 13% of the entire issued share capital of Worldgate International on a fully diluted basis in cash for RM4,986,359 (or equivalent to HK\$9,000,000).

On 1 July 2015, Gallant Pride was incorporated in the BVI and on 28 October 2015, 50,000 shares of US\$1.00 each were allotted and issued to Worldgate International.

On 1 July 2015, Billion Oriental was incorporated in the BVI and on 28 October 2015, 50,000 shares of US\$1.00 each were allotted and issued to Worldgate International.

On 7 July 2015, Superb Vantage was incorporated in the BVI and on 28 October 2015, 50,000 shares of US\$1.00 each were allotted and issued to Worldgate International.

On 28 October 2015, Worldgate International acquired the entire equity interest of Dong Tai BVI in cash at par.

On 18 February 2016, Worldgate Haulage was incorporated in Malaysia, and 50 shares of RM1 each were allotted and issued to each of the Controlling Shareholders.

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**2. REORGANISATION AND BASIS OF PRESENTATION (CONTINUED)**

On 19 February 2016, the Controlling Shareholders transferred their entire issued share capital of Worldgate Haulage to Worldgate Express for cash at par.

On 22 February 2016, Worldgate Express subscribed for 499,900 shares in Worldgate Haulage at par value.

On 13 June 2016, the Controlling Shareholders legally transferred their entire issued share capital of Worldgate Express to Gallant Pride for cash at par.

On 13 June 2016, the Controlling Shareholders legally transferred their entire issued share capital of My Forwarder to Billion Oriental for cash at par.

On 13 June 2016, the Controlling Shareholders legally transferred their entire issued share capital of Freight Transport to Superb Vantage for cash at par.

On 17 June 2016, RLDC Investment, Upright Plan and Champion Ascent transferred their entire shareholding interest in Worldgate International to the Company, in consideration of which (i) the Initial Shares held by RLDC Investment was credited as fully paid; (ii) the Company allotted and issued 73 Shares to RLDC Investment credited as fully paid; (iii) the Company allotted and issued 13 Shares to Upright Plan credited as fully paid; and (iv) the Company allotted and issued 13 Shares to Champion Ascent credited as fully paid.

Pursuant to the Reorganisation, which was completed by interspersing RLDC Investment, which was an investment holding company incorporated in the BVI with limited liability, and the Company between the Controlling Shareholders and Worldgate International, the Company became the holding company of the companies now comprising the Group on 17 June 2016. RLDC Investment is the immediate and ultimate holding company of the Company after the Reorganisation and not forming part of the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Financial Information has been prepared as if the Company had always been the holding company of the Group.

The Company and its subsidiaries now comprising the Group have been both before and after the Reorganisation under the common control of the Controlling Shareholders. A contractual arrangement existed among the Controlling Shareholders to manage the business and operations of the Group on a collective basis. The Controlling Shareholders have made collective decisions in respect of the financing and operating activities that significantly affect the Group’s returns. Accordingly, the Controlling Shareholders are regarded as the controlling parties of the Group throughout the Track Record Period and the Reorganisation has been accounted for in accordance with Hong Kong Accounting Guideline 5 Merger Accounting for Common Control Combinations and the Financial Information has been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the Track Record Period.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period or since the respective dates of incorporation, which is a shorter period. The combined statements of financial position of the Group as at 31 December 2014 and 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taken into account the respective dates of incorporation.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on combination. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which the case the loss is recognised in profit or loss. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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### 3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently applied all HKFRSs, Hong Kong Accounting standards (“HKASs”), amendments and interpretations issued by the HKICPA which are effective during the Track Record Period.

At the date of this report, the HKICPA has issued the following new or revised HKFRSs, potentially relevant to the Group’s Financial Information, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle <sup>1</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>1</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet determined but is available for adoption

#### HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

#### HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

#### HKFRS 16 — Leases

HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC) — Int 4 Determining whether an Arrangement contains a Lease, HK(SIC) — Int 15 Operating Lease-Incentives and HK(SIC) — Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17. Under HKFRS 16, leases are recorded on the statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of the lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. leases of 12 months or less, including the effect of any extension options) and (b) leases of low-value assets (for example, a lease of a personal computer).

HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

The Group has already commenced an assessment of the impact of adopting the above Standards and amendments to existing standards to the Group. The Group has so far concluded that the application of these new pronouncements will have no material impact on the Financial Information.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with all applicable HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as the “HKFRS”) issued by HKICPA. In addition, the Financial Information includes applicable disclosures required by the GEM [REDACTED] Rules.

The Financial Information has been prepared under the historical cost basis.

##### **(a) Basis of preparation**

###### ***Merger accounting for business combination involving entities under common control***

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Track Record Period. As explained in Note 2 above, the acquisition of the subsidiaries under common control has been accounted for using merger accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party’s interest. All differences between the cost of acquisition and the amount at which the assets and liabilities are recorded have been recognised directly in equity as part of reserve.

The Financial Information includes the results and financial positions of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination.

###### ***Basis of consolidation***

The results of subsidiaries acquired or disposed of during the year are included in the combined statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group’s previously held equity interest in acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of acquiree’s identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any excess of the acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the consolidation of a business combination is recognised immediately in profit or loss.

All intragroup assets and liabilities, equity, income, expenses and cash flow relating to transactions between members of the Group are eliminated in full on consolidation.

**(b) Subsidiaries**

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

**(c) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Freehold land	N/A
Leasehold land	Over the remaining lives of the leases
Buildings	50 years
Motor vehicles	5 years
Leasehold improvement	10 years
Computer	3–5 years
Furniture, fixture and equipment	10 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset’s estimated recoverable amount.

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Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

**(d) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

***The Group as lessee***

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

Leasehold land and land use rights held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense and less any impairment losses.

**(e) Financial Instruments****(i) *Financial assets***

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. 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.

***Loan and receivables***

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

**(ii) *Impairment loss on financial assets***

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;

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- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor’s financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

**(iii) Financial liabilities**

Financial liabilities at amortised cost including trade and other payables, bank borrowings and finance lease obligations are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

**(iv) Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

**(v) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**(vi) Derecognition**

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

**(f) Revenue recognition**

Revenues are recognised when the services are rendered.

For freight forwarding business, it generally coincides with the date of departure for outward freights and the time of transfer of goods to the customers at the designated location for inward freight. The Group effectively acts as a principal in arranging transportation of goods for customers, revenue recognised generally includes the carrier’s charges to the Group.

Interest income is recognised on accruals basis using the effective interest method.

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**(g) Income tax**

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

**(h) Foreign currency**

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate(s) (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

For the purpose of preparing the Financial Information, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Malaysian Ringgit) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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**(i) Employee benefits****(i) Short-term employee benefits**

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

**(ii) Defined contribution retirement plan**

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

**(iii) Termination benefits**

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

**(j) Impairment of assets (other than financial assets)**

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that these assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**(k) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(l) Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group’s business components and for their review of the performance of those components.

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**(m) Related parties**

- (a) A person or a close member of that person’s family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company’s parent.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group’s parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person’s children and spouse or domestic partner;
- (ii) children of that person’s spouse or domestic partner; and
- (iii) dependents of that person or that person’s spouse or domestic partner.

**5. ACCOUNTING ESTIMATES AND JUDGEMENTS**

In the application of the Group’s accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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**(i) Useful lives of property, plant and equipment**

The Group regularly reviews the estimated useful lives of property, plant and equipment based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the value of property, plant and equipment.

**(ii) Impairment of loans and receivables**

The Group assess at each reporting date whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the receivable and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

**(iii) Income taxes**

Judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Company recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**(iv) Classification of bank borrowings**

The Group entered into term loan agreements with certain registered banks in Malaysia that are governed by and construed in accordance with the laws of Malaysia and the said agreements include repayment on demand clauses. Judgement is involved in determining whether the Group has unconditional right to defer settlement of these bank borrowings for at least twelve months after the reporting period. The Group, with reference to court decisions on certain legal cases in Malaysia and legal opinion obtained, determines that demand clauses on these bank borrowings shall not have an effect to the Group’s ability to defer settlement of its liabilities to these banks for at least twelve months after the reporting period as these clauses would not override other terms and conditions provided in these banking facilities.

The Group classifies its fixed term bank borrowings with these registered banks in Malaysia as current and non-current liabilities in accordance with terms and conditions as stated in respective bank loan agreements.

**6. SEGMENT INFORMATION****(a) Business segment**

The Group has been operating in one operating and reportable segment, being the provision of freight forwarding and related services in Malaysia (country of domicile). The chief operating decision maker make decisions based on the Financial Information of the Group prepared in accordance with HKFRS about resources allocation and performance assessment.

**(b) Geographic information**

For the geographical information, revenues from external customers are based on the location of operations. Since the Group solely operates business in Malaysia and all of the non-current assets of the Group are located in Malaysia, no geographical segment information is presented in accordance with HKFRS 8 Operating Segments.

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**(c) Information about major customers**

Revenue from customers individually contributing over 10% of the total revenue of the Group for the Track Record Period were as follow:

	<u>2014</u>	<u>2015</u>
	RM	RM
Customer I	19%	32%
Customer II	<u>14%</u>	<u>13%</u>

**7. REVENUE**

Revenue of the Group represents revenue generated from provision of (i) air freight forwarding and related services; (ii) sea freight forwarding and related services; and (iii) trucking and warehouse and related services. The amounts of each significant category of revenue recognised during the Track Report Period are as follows:

	<u>2014</u>	<u>2015</u>
	RM	RM
Air freight forwarding and related services	27,101,088	47,242,954
Sea freight forwarding and related services	30,930,907	32,744,309
Trucking and warehouse and related services	<u>2,342,827</u>	<u>3,056,630</u>
	<u>60,374,822</u>	<u>83,043,893</u>

**8. OTHER REVENUE**

	<u>2014</u>	<u>2015</u>
	RM	RM
Interest income from bank deposits	1,043	42,240
Gain on foreign exchange:		
— realised gain	474,894	799,898
— unrealised gain	406,414	996,940
Gain on disposal of property, plant and equipment	15,134	222,327
Others	<u>—</u>	<u>60,271</u>
	<u>897,485</u>	<u>2,121,676</u>

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**9. PROFIT BEFORE INCOME TAX EXPENSE**

	<u>2014</u>	<u>2015</u>
	RM	RM
Profit before income tax expense is arrived at after charging:		
Auditor’s remuneration	45,932	345,782
Employee costs ( <i>Note 11</i> )	6,331,069	7,610,688
Write-off of loans and receivables	27,836	242,281
Write-off of property, plant and equipment	—	265,940
Depreciation of property, plant and equipment:		
— Owned	278,518	553,486
— Held under finance leases	1,178,647	2,042,047
Minimum lease payments under operating leases recognised as expense in the year	824,389	928,938
[REDACTED] (including professional fees and other expenses)	<u>—</u>	<u>1,445,481</u>

**10. DIVIDENDS**

	<u>2014</u>	<u>2015</u>
	RM	RM
Interim dividends attributable to owners of the company	—	3,143,426
Final dividends proposed after the end of reporting period	<u>—</u>	<u>12,000,000</u>
	<u>—</u>	<u>15,143,426</u>

No dividend has been paid or declared by the Company since its incorporation. For the purpose of the Financial Information, the interim dividends for the year ended 31 December 2015 amounting to RM3,143,426 represented interim dividends declared by certain group entities to their then shareholders.

In March 2016, the directors of certain subsidiaries proposed final dividends amounting to RM12,000,000 in aggregate. The final dividend proposed subsequent to 31 December 2015 has not been recognised as a liability as at 31 December 2015 in the Financial Information.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Financial Information.

**11. EMPLOYEE COSTS**

	<u>2014</u>	<u>2015</u>
	RM	RM
Employee costs (including directors) comprise:		
Wages and salaries	5,339,986	6,492,218
Short-term non-monetary benefits	296,085	295,189
Contributions to retirement benefit schemes	<u>694,998</u>	<u>823,281</u>
	<u>6,331,069</u>	<u>7,610,688</u>

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**12. DIRECTORS’ EMOLUMENTS**

The aggregate amount of emoluments paid or payable to each of the directors as at the date of this report during the Track Record Period are as follow:

**Year ended 31 December 2014:**

	<u>Fees</u>	<u>Salaries and other benefits</u>	<u>Discretionary bonus</u>	<u>Contributions to retirement benefit schemes</u>	<u>Total</u>
	RM	RM	RM	RM	RM
<i>Executive directors</i>					
Lee Chooi Seng	—	418,000	26,000	52,640	496,640
Chin Seng Leong	—	356,000	22,000	44,720	422,720
	<u>—</u>	<u>774,000</u>	<u>48,000</u>	<u>97,360</u>	<u>919,360</u>

**Year ended 31 December 2015:**

	<u>Fees</u>	<u>Salaries and other benefits</u>	<u>Discretionary bonus</u>	<u>Contributions to retirement benefit schemes</u>	<u>Total</u>
	RM	RM	RM	RM	RM
<i>Executive directors</i>					
Lee Chooi Seng	—	443,700	58,000	59,204	560,904
Chin Seng Leong	—	382,500	50,000	50,900	483,400
	<u>—</u>	<u>826,200</u>	<u>108,000</u>	<u>110,104</u>	<u>1,044,304</u>

**13. FIVE HIGHEST PAID INDIVIDUALS**

The five highest paid individuals included two directors for each of the years ended 31 December 2014 and 2015. The emoluments of the remaining three highest paid individuals for each of the years ended 31 December 2014 and 2015 were as follow:

	<u>2014</u>	<u>2015</u>
	RM	RM
Salaries and other benefits	453,090	506,580
Contributions to retirement benefit schemes	<u>55,275</u>	<u>61,463</u>
	<u>508,365</u>	<u>568,043</u>

The emoluments of each of the above non-director highest paid individuals during the Track Record Period were all within the band of nil to RM421,800 (approximately nil to HK\$1,000,000) and nil to RM500,751 (approximately nil to HK\$1,000,000) in 2014 and 2015, respectively.

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During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors nor the five highest paid individuals has waived or agreed to waive any emoluments during the Track Record Period.

**14. FINANCE COSTS**

	<u>2014</u>	<u>2015</u>
	RM	RM
Interest on bank overdrafts	82,590	81,866
Interest on bank borrowings	243,296	576,608
Interest on finance lease	<u>285,141</u>	<u>397,368</u>
	<u>611,027</u>	<u>1,055,842</u>

**15. INCOME TAX EXPENSE**

The amount of income tax expense in the combined statements of comprehensive income represents:

	<u>2014</u>	<u>2015</u>
	RM	RM
Current tax — Malaysia income tax		
— charge for the year	1,458,612	3,104,994
— over-provision in respect of prior years	<u>(66)</u>	<u>(388,004)</u>
	1,458,546	2,716,990
Deferred tax ( <i>Note 23</i> )		
— charge for the year	<u>417,241</u>	<u>405,042</u>
Income tax expense	<u>1,875,787</u>	<u>3,122,032</u>

Malaysian income tax is calculated at the statutory rate of 25% of the estimated taxable profit for the year. Certain subsidiaries incorporated in Malaysia enjoy tax rate of 20% on the first RM500,000 and remaining balance of the estimated taxable profit at tax rate of 25%.

No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the years ended 31 December 2014 and 2015. Taxation for oversea subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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The income tax expense for the Track Record Period can be reconciled to the profit before income tax expense per the combined statements of comprehensive income as follows:

	<u>2014</u>	<u>2015</u>
	<u>RM</u>	<u>RM</u>
Profit before income tax expense	<u>5,751,229</u>	<u>10,091,500</u>
Tax calculated at the domestic tax rate	1,437,807	2,862,229
Tax incentive obtained from differential tax rate of 20%	(73,630)	(46,043)
Tax effect of expenses not deductible for tax purposes	529,787	694,359
Tax effect of revenue not taxable	(18,111)	(509)
Over-provision of tax expense in prior years	<u>(66)</u>	<u>(388,004)</u>
Income tax expense	<u>1,875,787</u>	<u>3,122,032</u>

**16. EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the group reorganisation and the presentation of the results for the Track Record Period on a combined basis as disclosed in Note 2 above.

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**17. PROPERTY, PLANT AND EQUIPMENT**

	<b>Freehold land</b>	<b>Leasehold land and buildings</b>	<b>Motor vehicles</b>	<b>Leasehold improvement</b>	<b>Computer</b>	<b>Furniture, fixture and equipment</b>	<b>Total</b>
	RM	RM	RM	RM	RM	RM	RM
Cost:							
At 1 January 2014	316,600	685,501	4,341,210	640,908	659,906	501,515	7,145,640
Additions	—	12,537,169	6,347,110	243,955	213,210	221,694	19,563,138
Disposals	—	—	(535,000)	—	—	—	(535,000)
At 31 December 2014	316,600	13,222,670	10,153,320	884,863	873,116	723,209	26,173,778
Additions	910,000	479,206	1,190,465	3,252,174	128,861	144,641	6,105,347
Written off	—	—	(271,400)	—	(48,000)	—	(319,400)
Disposals	—	—	(97,000)	—	—	(16,000)	(113,000)
At 31 December 2015	<u>1,226,600</u>	<u>13,701,876</u>	<u>10,975,385</u>	<u>4,137,037</u>	<u>953,977</u>	<u>851,850</u>	<u>31,846,725</u>
Accumulated depreciation:							
At 1 January 2014	—	142,470	1,707,357	417,342	449,027	304,326	3,020,522
Charge for the year	—	14,247	1,178,647	87,647	105,215	71,409	1,457,165
Disposal	—	—	(166,333)	—	—	—	(166,333)
At 31 December 2014	—	156,717	2,719,671	504,989	554,242	375,735	4,311,354
Charge for the year	—	268,488	2,042,047	112,343	109,765	62,890	2,595,533
Written off	—	—	(5,460)	—	(48,000)	—	(53,460)
Disposal	—	—	(97,000)	—	—	(12,800)	(109,800)
At 31 December 2015	<u>—</u>	<u>425,205</u>	<u>4,659,258</u>	<u>617,332</u>	<u>616,007</u>	<u>425,825</u>	<u>6,743,627</u>
Net carrying amount:							
At 31 December 2014	<u>316,600</u>	<u>13,065,953</u>	<u>7,433,649</u>	<u>379,874</u>	<u>318,874</u>	<u>347,474</u>	<u>21,862,424</u>
At 31 December 2015	<u>1,226,600</u>	<u>13,276,671</u>	<u>6,316,127</u>	<u>3,519,705</u>	<u>337,970</u>	<u>426,025</u>	<u>25,103,098</u>

At the end of reporting period, land included in property, plant and equipment with a net carrying amount of RM316,600 and RM1,226,600 as at 31 December 2014 and 2015, respectively is situated outside Hong Kong and is held freehold.

The carrying amount of motor vehicles include an amount of RM7,433,649 and RM6,316,127 as of 31 December 2014 and 2015, respectively in respect of assets held under finance leases.

At the end of reporting period, certain of the Group's land and buildings with net carrying amount of RM13,382,553 and RM14,503,271 as at 31 December 2014 and 2015, respective were pledged to secure the bank borrowings granted to the Group by licensed banks (Note 22).

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**18. TRADE AND OTHER RECEIVABLES**

	<u>2014</u>	<u>2015</u>
	RM	RM
Trade receivables	11,529,730	17,600,929
Prepayments and deposits	1,060,848	1,158,865
Other receivables	<u>855,422</u>	<u>533,221</u>
	<u>13,446,000</u>	<u>19,293,015</u>

The average credit period granted to trade debtors ranging from 30–60 days from the invoice date.

Included in trade and other receivables are trade debtors (net of impairment losses) with the following aging analysis, based on invoice dates, as at 31 December 2014 and 2015:

	<u>2014</u>	<u>2015</u>
	RM	RM
Within 1 month	5,362,886	8,832,092
1 to 2 months	3,574,754	6,519,734
2 to 3 months	1,236,547	1,436,054
Over 3 months	<u>1,355,543</u>	<u>813,049</u>
	<u>11,529,730</u>	<u>17,600,929</u>

At the end of each of the reporting periods, the Group reviews trade and other receivables for evidence of impairment on both individual and collective basis. Based on the impairment assessment, no impairment loss has been recognised as at 31 December 2014 and 2015. The Group did not hold any collateral as security or other credit enhancement over the trade receivables.

The aging of trade receivables which are past due but not impaired is as follows:

	<u>2014</u>	<u>2015</u>
	RM	RM
Neither past due nor impaired	<u>5,534,876</u>	<u>9,033,762</u>
Past due but not impaired:		
Less than 1 month	3,546,627	6,432,789
1 to 3 months	1,753,263	1,713,860
More than 3 months but less than 12 months	<u>694,964</u>	<u>420,518</u>
	<u>5,994,854</u>	<u>8,567,167</u>

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

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**19. AMOUNTS DUE FROM DIRECTORS AND SHAREHOLDERS**

(a) Amounts due from directors of the Group are disclosed as follow:

	<b>As at 1 January 2014</b>	<b>As at 31 December 2014</b>	<b>Maximum outstanding amount during the year<sup>^</sup></b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
Mr. Lee	154,787	265,047	324,746
Mr. Chin	154,787	265,047	324,746
	<u>309,574</u>	<u>530,094</u>	
	<b>As at 1 January 2015</b>	<b>As at 31 December 2015</b>	<b>Maximum outstanding amount during the year<sup>^</sup></b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
Mr. Lee	265,047	2,986	267,259
Mr. Chin	265,047	2,986	267,259
	<u>530,094</u>	<u>5,972</u>	

<sup>^</sup> These amounts represented the maximum amounts due from the respective directors during the respective years.

The amount is non-trade related, unsecured, interest-free and repayable on demand.

(b) Amounts due from shareholders are disclosed as below:

	<b>As at 1 January 2015</b>	<b>As at 31 December 2015</b>	<b>Maximum outstanding amount during the year<sup>^</sup></b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
Upright Plan	—	3,878,280	3,878,280
Champion Ascent	—	3,878,280	3,878,280
	<u>—</u>	<u>7,756,560</u>	

<sup>^</sup> These amounts represented the maximum amounts due from the respective shareholders during the respective years.

On 28 October 2015, Upright Plan and Champion Ascent subscribed each of 13 shares of Worldgate International in cash for RM4,986,359 (or equivalent to HK\$9,000,000 at the then conversion rate of approximately RM1:HK\$1.80), in aggregate RM9,972,717 (or equivalent to HK\$[REDACTED] at the then conversion rate of approximately RM1:HK\$1.80). As at 31 December 2015, RM2,213,849 (or equivalent to HK\$4,000,000 at the then

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conversion rate of approximately RM1:HK\$1.81) was received from Upright Plan and Champion Ascent representing each of the parties settled RM1,106,925 in cash. As at 31 December 2015, the remaining unsettled balance, including exchange difference on the unsettled balances, was RM7,756,560.

The amount is non-trade related, unsecured, interest-free and repayable on demand. Subsequent to 31 December 2015, the amounts were fully settled.

No amount due from shareholder was noted for the year 31 December 2014.

**20. AMOUNTS DUE FROM RELATED COMPANIES**

The amounts due from related companies are as follow:

	<b>As at 1 January 2014</b>	<b>As at 31 December 2014</b>	<b>Maximum outstanding amount during the year<sup>^</sup></b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
WG Resources International Sdn. Bhd.	244,268	201,868	244,268
Worldgate Resources Group Sdn. Bhd.	368,969	1,150,319	1,150,319
PT Worldgate Resources Express	<u>558,229</u>	<u>826,708</u>	826,708
	<u>1,171,466</u>	<u>2,178,895</u>	
	<b>As at 1 January 2015</b>	<b>As at 31 December 2015</b>	<b>Maximum outstanding amount during the year<sup>^</sup></b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
WG Resources International Sdn. Bhd.	201,868	—	201,868
Worldgate Resources Group Sdn. Bhd.	1,150,319	—	1,150,319
PT Worldgate Resources Express	<u>826,708</u>	<u>—</u>	826,708
	<u>2,178,895</u>	<u>—</u>	

<sup>^</sup> These amounts represented the maximum amounts due from the related companies during the respective years.

The directors of the Group, Mr. Lee and Mr. Chin, have equity interests in WG Resources International Sdn. Bhd., Worldgate Resources Group Sdn. Bhd. and PT Worldgate Resources Express.

The amounts due are unsecured, interest-free and repayable on demand.

**21. TRADE AND OTHER PAYABLES**

	<b>2014</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Trade payables	4,471,783	9,454,500
Other payables, accruals and deposit received	<u>2,774,185</u>	<u>4,929,935</u>
	<u>7,245,968</u>	<u>14,384,435</u>

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Trade payables are non-interest bearing. The Group is normally granted credit terms ranging from 0 to 30 days from the invoice date.

Included in trade and other payables are trade creditors with the following aging analysis, based on invoice dates, as at 31 December 2014 and 2015:

	<u>2014</u>	<u>2015</u>
	RM	RM
0 to 30 days	2,440,968	3,640,095
31 to 60 days	1,707,822	4,664,434
61 to 90 days	155,710	758,580
Over 90 days	<u>167,283</u>	<u>391,391</u>
	<u>4,471,783</u>	<u>9,454,500</u>

**22. BANK BORROWINGS, SECURED**

	<u>2014</u>	<u>2015</u>
	RM	RM
Secured and interest-bearing bank borrowings <sup>(1)</sup>	11,758,290	15,085,970
Bank overdraft	<u>494,722</u>	<u>16,636</u>
	<u>12,253,012</u>	<u>15,102,606</u>
Bank borrowings are repayable as follows:		
— on demand or within one year	1,096,369	950,012
— more than one year, but not exceeding two years	633,708	1,049,383
— more than two years, but not exceeding five years	2,103,806	3,372,879
— after five years	<u>8,419,129</u>	<u>9,730,332</u>
	12,253,012	15,102,606
Amount due within one year included in current liabilities	<u>(1,096,369)</u>	<u>(950,012)</u>
Amount include in non-current liabilities	<u>11,156,643</u>	<u>14,152,594</u>

*Notes:*

- (1) Bank borrowings are interest-bearing at the banks’ base lending rate adjusted by certain basis points per annum. The interest rates of the Group’s bank borrowings as at 31 December 2014 and 2015 granted under banking facilities ranged from 4.2% to 6.8% and 4.2% to 6.9% per annum, respectively.
- (2) As at 31 December 2014 and 2015, the carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contains repayable on demand clause amounting to RM11,156,643 and RM14,152,594, respectively.

The Director of the Group have sought legal opinion and given to understand that, in accordance with the case laws established in Malaysia, it is determined that the mere inclusion of a repayment on demand clause in a term loan agreement governed under the laws of Malaysia would not allow the banks to early terminate the facilities granted and to seek immediate repayment from the borrower unless there is a breach by the borrower, as the clause would not override other terms and conditions provided in the term loan agreement.

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Accordingly, the liability associated with the term loans of the Group raised in Malaysia that contained a repayable on demand clause is classified as current and/or non-current liability during the Track Record Period in accordance with other terms and conditions as stated in the respective term loan agreement.

Any change to the precedence established by the Courts of Law in Malaysia relating to the interpretation of the repayment on demand clause in the future may have an impact to the classification of the term loans of the Group.

The Group classifies its fixed term bank borrowings with certain registered banks in Malaysia as current and non-current liabilities in accordance with terms and conditions as stated in respective bank loan agreements.

(c) The Group’s bank borrowings and banking facilities are secured by the followings:

- Land and buildings with net carrying amount of RM13,382,553 and RM14,503,271 as at 31 December 2014 and 2015, respectively (Note 17); and
- Personal guarantees from the Controlling Shareholders.

**23. DEFERRED TAX LIABILITIES**

Details of the deferred tax liabilities recognised and movements during the Track Record Period:

	<b>Accelerated tax depreciation</b>
	<b>RM</b>
At 1 January 2014	113,591
Charge to profit or loss for the year	<u>417,241</u>
At 31 December 2014 and 1 January 2015	530,832
Charge to profit or loss for the year	<u>405,042</u>
At 31 December 2015	<u><u>935,874</u></u>

No deferred tax asset has been provided in the Financial Information as there were no material deductible temporary differences as at 31 December 2014 and 2015.

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**24. FINANCE LEASE OBLIGATIONS**

The Group leases certain motor vehicles. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

**At 31 December 2014:**

	<u>Minimum lease payments</u>	<u>Interest</u>	<u>Present value</u>
	RM	RM	RM
Not later than one year	2,234,018	354,077	1,879,941
More than 1 year but less than 2 years	1,808,171	250,525	1,557,646
Later than 2 years and not later than 5 years	3,686,251	282,164	3,404,087
Later than five years	<u>14,011</u>	<u>165</u>	<u>13,846</u>
	<u><u>7,742,451</u></u>	<u><u>886,931</u></u>	<u><u>6,855,520</u></u>

**At 31 December 2015:**

	<u>Minimum lease payments</u>	<u>Interest</u>	<u>Present value</u>
	RM	RM	RM
Not later than one year	2,038,178	310,401	1,727,777
More than 1 year but less than 2 years	1,786,428	208,869	1,577,559
Later than 2 years and not later than 5 years	<u>2,857,586</u>	<u>143,816</u>	<u>2,713,770</u>
	<u><u>6,682,192</u></u>	<u><u>663,086</u></u>	<u><u>6,019,106</u></u>

The present value of future lease payments are analysed as:

	<u>2014</u>	<u>2015</u>
	RM	RM
Current liabilities	1,879,941	1,727,777
Non-current liabilities	<u>4,975,579</u>	<u>4,291,329</u>
	<u><u>6,855,520</u></u>	<u><u>6,019,106</u></u>

- (a) The Group’s finance lease liabilities are subject to personal guarantees provided by Mr. Lee and Mr. Chin, directors of the Group.
- (b) The effective interest rates of the Group’s finance lease liabilities as at 31 December 2014 and 2015 ranged from 2.4% to 3.4% and 2.4% to 3.4% per annum, respectively.

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**25. SHARE CAPITAL**

For the purpose of this report, the issued capital of the Group as at 31 December 2014 and 2015 represents the combined share capital of the following group entities:

	<u>2014</u>	<u>2015</u>
	RM	RM
Worldgate Express	5,000,000	5,000,000
My Forwarder	1,000,000	1,000,000
Freight Transport	1,000,000	1,000,000
Worldgate International	<u>N/A</u>	<u>429</u>
	<u>7,000,000</u>	<u>7,000,429</u>

During the Track Record Period, 5,100,000 shares were issued as bonus shares by certain group entities to their shareholders.

**26. RESERVES**

The following describes the nature and purpose of each reserve within owners’ equity:

**Share premium**

The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by the applicable laws of the Cayman Islands.

**Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 4(h).

**27. OPERATING LEASES**

Operating lease payments represent rentals payable by the Group for certain of its lease properties. Leases are negotiated for terms between 1 year and 4 years at fixed rentals.

At the end of each of the reporting period, the Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>2014</u>	<u>2015</u>
	RM	RM
Not later than one year	138,400	207,527
Later than one year and not later than five years	<u>53,200</u>	<u>12,834</u>
	<u>191,600</u>	<u>220,361</u>

**28. RELATED PARTY TRANSACTIONS**

- (a) At 31 December 2014 and 2015, the Controlling Shareholders provide personal guarantees to secure for the bank borrowings and banking facilities (Note 22) and finance lease obligations (Note 24) grant to the Group.

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At the date of this report, the Controlling Shareholders provide personal guarantees to the Group for bank borrowings and finance lease obligations. These personal guarantees will be released, discharged or replaced by corporate guarantees or other securities provided by the Group upon [REDACTED].

- (b) The remuneration of directors and other members of key management during the Track Record Period were as follows:

	<u>2014</u>	<u>2015</u>
	RM	RM
Wages and salaries	1,439,143	1,655,630
Contributions to retirement benefits schemes	<u>173,068</u>	<u>197,739</u>
	<u>1,612,211</u>	<u>1,853,369</u>

### 29. CONTINGENT LIABILITIES

At the end of Track Record Period, bank guarantees of RM612,000 (2014: RM428,000) of the Group were issued to suppliers for operational requirements. The directors do not consider it probable that a claim will be made against the Group under these guarantees.

### 30. CAPITAL COMMITMENTS

	<u>2014</u>	<u>2015</u>
	RM	RM
Commitments for the acquisition of property, plant and equipment	<u>2,519,710</u>	<u>3,151,498</u>

### 31. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	<u>2014</u>	<u>2015</u>
	RM	RM
Financial assets		
Loans and receivables		
— Cash and cash equivalents	5,365,722	15,887,100
— Trade and other receivables	12,614,929	18,476,073
— Amounts due from shareholders	—	7,756,560
— Amounts due from related companies	2,178,895	—
— Amounts due from directors	<u>530,094</u>	<u>5,972</u>
	<u>20,689,640</u>	<u>42,125,705</u>
Financial liabilities measured at amortised cost		
— Trade and other payables	7,245,968	13,679,259
— Finance lease obligations	6,855,520	6,019,106
— Bank borrowings	<u>12,253,012</u>	<u>15,102,606</u>
	<u>26,354,500</u>	<u>34,800,971</u>

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Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, bank borrowings, finance lease obligations and balances with related companies, shareholders and directors.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, bank borrowings, finance lease obligations and balances with related companies, shareholders and directors approximates fair value.

**32. FINANCIAL RISK MANAGEMENT**

The main risks arising from the Group’s financial instruments in the normal course of the Group’s business are credit risk, liquidity risk, interest rate risk and currency risk.

**(a) Credit risk**

The Group’s credit risk is primarily attributable to its trade and other receivables and bank deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer’s past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due within 30 to 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 36% (2014: 6%) and 51% (2014: 25%) of the total trade receivables was due from the Group’s largest customer and the five largest customers, respectively.

Substantial bank deposits are held in major financial institutions which management believes are of high credit quality.

**(b) Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company’s board when the borrowings exceed certain predetermined levels of authority. The Group’s policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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The following tables show the remaining contractual maturities at the end of the Track Record Period of the Group’s bank borrowings, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay.

	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Within 1 year or repayable on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but Less than 5 years</b>	<b>More than 5 years</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
31 December 2014						
Trade and other payables	7,245,968	7,245,968	7,245,968	—	—	—
Bank borrowings	12,253,012	16,767,262	1,624,702	1,129,980	3,419,352	10,593,228
Finance lease obligations	6,855,520	7,742,451	2,234,018	1,808,171	3,686,251	14,011
	<u>26,354,500</u>	<u>31,755,681</u>	<u>11,104,688</u>	<u>2,938,151</u>	<u>7,105,603</u>	<u>10,607,239</u>

	<b>Carrying amount</b>	<b>Total contractual undiscounted cash flow</b>	<b>Within 1 year or repayable on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years but Less than 5 years</b>	<b>More than 5 years</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
31 December 2015						
Trade and other payables	14,384,435	14,384,435	14,384,435	—	—	—
Bank borrowings	15,102,606	20,031,503	1,614,666	1,666,997	4,948,479	11,801,361
Finance lease obligations	6,019,106	6,682,192	2,038,178	1,786,428	2,857,586	—
	<u>35,506,147</u>	<u>41,098,130</u>	<u>18,037,279</u>	<u>3,453,425</u>	<u>7,806,065</u>	<u>11,801,361</u>

**(c) Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group’s interest rate risk mainly arises from bank deposits, bank borrowings and finance lease liabilities. Borrowings arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

All of the Group’s bank borrowings as at 31 December 2014 and 2015 bore interest at floating rates whereas its finance lease liabilities bore interest at fixed rates. Details of bank borrowings and finance lease liabilities are disclosed in Notes 22 and 24, respectively.

The Group’s bank balances, also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Group consider the Group’s exposure to interest rate risk in respect of bank balances is not significant due to low level of deposit interest rate.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

At 31 December 2014 and 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group’s profit for the year and retained profits by approximately RM69,182 and RM32,914, respectively. The changes in interest rates do not affect the Group’s other component of equity.

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The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management’s assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2014.

**(d) Currency risk**

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in foreign exchange rates.

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they related. The currencies giving rise to foreign currency risk are primarily United States Dollars (“USD”). The management monitors foreign currency exposure of the Group and will consider undertaking foreign exchange hedging activities to reduce the impact of foreign exchange rate movements on the Group’s operating result.

As at 31 December 2014, the Group had 8 open foreign currency forward contracts to sell USD to a reputable bank in Malaysia to mitigate the risk on foreign currency fluctuation against RM. The net open position and fair value of the foreign currency forward contracts were USD800,000 and RM116,593 (financial liabilities), respectively.

As at 31 December 2015, the Group had a open foreign currency forward contract to sell USD to a reputable bank in Malaysia to mitigate the risk on foreign currency fluctuation against RM. The net open position and fair value of the foreign currency forward contracts were USD100,000 and RM50,073 (financial liabilities), respectively.

During the Track Record Period, the Group had entered into 14 and 4 foreign currency forward contracts to sell USD, in aggregate, amounted to USD1,300,000 and USD500,000 for the financial year 31 December 2014 and 2015, respectively.

In the opinion of directors, the net open position of these foreign currency forward contracts and their fair value as at 31 December 2014 and 2015 were not significant to the Group.

The net position of the carrying amounts of the foreign currency denominated monetary assets and liabilities as at 31 December 2014 and 2015 are as follows:

	<u>2014</u>	<u>2015</u>
	<u>RM</u>	<u>RM</u>
Trade receivables	2,833,624	9,047,364
Cash and cash equivalents	3,474,547	6,255,801
Trade payables	<u>(1,255,918)</u>	<u>(1,988,173)</u>
Net monetary assets	<u>5,052,253</u>	<u>13,314,992</u>

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The following tables illustrate the approximate change in the Group’s profit for the year and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of each of the Track Record Period.

	<u>2014</u>	<u>2015</u>
	RM	RM
USD appreciated by 5%	<u>252,613</u>	<u>665,750</u>

The change in exchange rates do not affect the Group’s other component of equity. The same percentage depreciation in the foreign currencies against the functional currency of the respective group companies would have the same magnitude on profit and retained profits but of opposite effect.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of each of the Track Record Period and had been applied to each of the group entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent management’s assessment of reasonably possible changes in foreign exchange rates over the period until the next reporting date.

**33. CAPITAL MANAGEMENT**

The Group’s objectives of managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group monitors capital using gearing ratio, which is total debt to equity. Total debts include bank borrowings and finance lease obligation. Equity represents total equity of the Group.

The directors of the Group actively and regularly reviews and manages the Group’s capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholders’ returns. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue [REDACTED] and raise new debts or sells assets to reduce debt.

The gearing ratios as at 31 December 2014 and 2015 were as follows:

	<u>2014</u>	<u>2015</u>
	RM	RM
Bank borrowings	12,253,012	15,102,606
Finance lease obligations	<u>6,855,520</u>	<u>6,019,106</u>
	<u>19,108,532</u>	<u>21,121,712</u>
Total equity	<u>16,508,796</u>	<u>30,305,247</u>
Gearing ratio	<u>116%</u>	<u>70%</u>

The Group targets to maintain a gearing ratio to be in line with the expected changes in economic and financial conditions. The Group’s overall strategy on capital management remains unchanged throughout the Track Record Period.

**34. NOTES TO THE COMBINED STATEMENTS OF CASH FLOWS**

**Major non-cash transactions**

For the year ended 31 December 2014 and 2015, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of leases of RM6,327,110 and RM1,173,440, respectively.

During the Track Record Period, 5,100,000 shares were issued as bonus shares by certain group entities to their shareholders.

**35. EVENTS AFTER THE REPORTING DATE**

On 12 May 2016, the Ministry of International Trade and Industry of Malaysia (“MITIM”) had certified a subsidiary of the Group is carrying out promoted activities in Malaysia and granted a pioneer certificate (No. 4981) for a period of five years from 1 July 2014 to 30 June 2019. Subject to certain conditions as agreed upon by the MITIM together with the Ministry of Finance and also the final approval by the local tax authority in Malaysia, this subsidiary is entitled to a tax exemption of 70% on the statutory income of the subsidiary for each of the tax assessment years from 1 July 2014 to 30 June 2019. Assuming all these conditions are fulfilled and approval by the local tax authority in Malaysia is obtained, to the best estimation of the Directors, the Directors estimate that this subsidiary may has over-provision of tax of RM347,000 and RM1,991,000 for the financial years ended 31 December 2014 and 2015, respectively. However, the Directors are uncertain as to whether this subsidiary can satisfy all these conditions throughout the remaining period of the pioneer certificate up to 30 June 2019 as granted and, in case these conditions have not been fulfilled, whether the tax exemptions available for the tax assessment years 2014 and 2015 will be adversely affected retrospectively.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company, or its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully,

**BDO Limited**

*Certified Public Accountants*

**Pak Tak Lun**

Practising Certificate number: P06170

Hong Kong