

CIRCULAR DATED 21 DECEMBER 2018

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

BEFORE MAKING ANY INVESTMENT IN THE SHARES (AS DEFINED BELOW), YOU SHOULD CONSIDER THE INFORMATION PROVIDED IN THIS CIRCULAR CAREFULLY, AND CONSIDER WHETHER YOU UNDERSTAND WHAT IS DESCRIBED IN THIS CIRCULAR. YOU SHOULD ALSO CONSIDER WHETHER AN INVESTMENT IN THE SHARES IS SUITABLE FOR YOU, TAKING INTO ACCOUNT YOUR INVESTMENT OBJECTIVES AND RISK APPETITE. IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL, TAX OR OTHER PROFESSIONAL ADVISER(S) IMMEDIATELY. YOU ARE RESPONSIBLE FOR YOUR OWN INVESTMENT CHOICES.

If you have sold or transferred all your ordinary shares ("Shares") in the capital of Leren Bio-Chem Ltd. ("Company"), held through The Central Depository (Pte) Limited ("CDP"), you need not forward this circular ("Circular") to the purchaser or transferee as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares represented by physical share certificate(s), you should immediately forward this Circular and the Proxy Form to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

An application has been made to the Singapore Exchange Securities Trading Limited ("SGX-ST") for permission for the listing and quotation of the Consolidated Shares, the Consideration Shares, the Transaction Costs Shares and the Settlement Shares (each term as defined herein) on Catalist (as defined herein). The listing and quotation notice for the Consolidated Shares, the Consideration Shares, the Transaction Costs Shares and the Settlement Shares, if issued by the SGX-ST, is not to be taken as an indication of the merits of the Proposed Transactions, the Target Group, the Enlarged Group, the Company, the Shares, the Consolidated Shares, the Consideration Shares, the Transaction Costs Shares or the Settlement Shares (each term as defined herein).

Neither the Monetary Authority of Singapore ("Authority") nor the SGX-ST has examined or approved the contents of this Circular. Neither the Authority nor the SGX-ST assumes any responsibility for the contents of this Circular, including the correctness of any of the statements or opinions made or reports contained in this Circular. The SGX-ST does not normally review the application for admission, but relies on the Sponsor confirming that the Enlarged Group (as defined herein) is suitable to be listed and complies with the Catalist Rules. Neither the Authority nor the SGX-ST has in any way considered the merits of the Shares or units of Shares. The lodgement of this Circular with the SGX-ST, acting as agent on behalf of the Authority, does not imply that the SFA (as defined herein), or any other legal or regulatory requirements, or requirements under the Catalist Rules (as defined herein), have been complied with.

Companies listed on Catalist may carry higher investment risk when compared with larger or more established companies listed on the Main Board of the SGX-ST. In particular, companies may list on Catalist without a track record of profitability and there is no assurance that there will be a liquid market in the shares or units of shares traded on Catalist. You should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with your professional adviser(s).

This Circular has been prepared by the Company and its contents have been reviewed by the Company's sponsor, SAC Capital Private Limited ("Sponsor") for compliance with the Catalist Rules. The Sponsor has not verified the contents of this Circular. This Circular has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this Circular, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this Circular.

The contact person for the Sponsor is Mr Bernard Lim, Director, at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542, telephone (65) 6232 3200.

Unless otherwise defined, terms appearing in the cover of this Circular bear the same meanings as defined in this Circular.

INVESTING IN THE COMPANY'S SHARES INVOLVES RISKS WHICH ARE DESCRIBED IN SECTION 16 ENTITLED "RISK FACTORS" OF THIS CIRCULAR.

LERENO BC

Investing for the Next Generation

能源生化有限公司 LERENO BIO-CHEM LTD

(Incorporated in the Republic of Singapore on 7 November 1974)

(Company Registration Number: 197401961C)

CIRCULAR TO SHAREHOLDERS

- (1) THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF KNIT TEXTILE AND APPAREL PTE. LTD. FOR A CONSIDERATION OF S\$26.4 MILLION;
- (2) THE PROPOSED ALLOTMENT AND ISSUE OF THE CONSIDERATION SHARES IN SATISFACTION OF THE CONSIDERATION FOR THE PROPOSED ACQUISITION;
- (3) THE PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER BY INDEPENDENT SHAREHOLDERS OF THEIR RIGHT TO RECEIVE A MANDATORY GENERAL OFFER FROM THE VENDOR AND THE FAMILY TRUST COMPANY FOR ALL THE SHARES IN ISSUE NOT ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE VENDOR, THE FAMILY TRUST COMPANY AND THEIR CONCERT PARTIES ON COMPLETION OF THE PROPOSED ACQUISITION;
- (4) THE PROPOSED ALLOTMENT AND ISSUE OF THE TRANSACTION COSTS SHARES;
- (5) THE PROPOSED ALLOTMENT AND ISSUE OF THE SETTLEMENT SHARES AS AN INTERESTED PERSON TRANSACTION;
- (6) THE PROPOSED SHARE CONSOLIDATION OF EVERY TWENTY (20) ORDINARY SHARES INTO ONE (1) CONSOLIDATED SHARE (FRACTIONAL ENTITLEMENTS TO BE DISREGARDED);
- (7) THE PROPOSED CAPITAL REDUCTION;
- (8) THE PROPOSED APPOINTMENT OF THE NEW DIRECTORS UPON COMPLETION OF THE PROPOSED ACQUISITION;
- (9) THE PROPOSED CHANGE OF NAME OF THE COMPANY FROM "LERENO BIO-CHEM LTD." TO "KTMG LIMITED";
- (10) THE PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION OF THE COMPANY; AND
- (11) THE PROPOSED ADOPTION OF A GENERAL MANDATE FOR THE ALLOTMENT AND ISSUE OF NEW SHARES.

Financial Adviser and Sponsor to the Company



SAC CAPITAL PRIVATE LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration Number: 200401542N)

Independent Financial Adviser in respect of the Proposed Whitewash Resolution



XANDAR CAPITAL PTE. LTD.

(Incorporated in the Republic of Singapore)

(Company Registration Number: 200002789M)

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form

16 January 2019 at 10.00 a.m.

Date and time of Extraordinary General Meeting

18 January 2019 at 10.00 a.m.

Place of Extraordinary General Meeting

Suntec Convention & Exhibition Center

1 Raffles Boulevard

Singapore 039593

Meeting Room 336 (Level 3)

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CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Tan Sri Dato' Kamaruzzaman Bin Shariff (<i>Non-Executive Chairman and Independent Director</i>) Mr Ong Puay Koon (<i>Managing Director and Chief Executive Officer</i>) Mr Ong Choon Lui (<i>Executive Director</i>) Mr Goh Yeow Tin (<i>Non-Executive and Independent Director</i>) Mr Wong Heang Fine (<i>Non-Executive and Independent Director</i>) Mr Yap Boh Pin (<i>Non-Executive and Independent Director</i>)
NEW DIRECTORS	:	Mr Lim Siau Hing @ Lim Kim Hoe (<i>Executive Chairman</i>) Mr Lim Vhe Kai (<i>Executive Director and Chief Executive Officer</i>) Mr Goh Yeow Tin (<i>Lead Non-Executive and Independent Director</i>) Mr Yap Boh Pin (<i>Non-Executive and Independent Director</i>) Mr Koh Boon Huat (<i>Non-Executive and Independent Director</i>)
COMPANY SECRETARY	:	Ms Pan Mi Keay (ACIS) Mr Lee Wei Hsiung (ACIS)
REGISTERED OFFICE OF THE COMPANY	:	80 Robinson Road #02-00 Singapore 068898
REGISTERED OFFICE OF KNIT TEXTILE AND APPAREL PTE. LTD.	:	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623
NEW PRINCIPAL PLACE OF BUSINESS OF THE ENLARGED GROUP AFTER COMPLETION	:	No. 3A Jalan Wawasan 16 Kawasan Perindustrian Sri Gading 83300 Batu Pahat Johor, Malaysia Telephone : 607-4558666 Facsimile : 607-4556500 Email : general@knit.com.my
SHARE REGISTRAR AND SHARE TRANSFER AGENT	:	Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) 80 Robinson Road #11-02 Singapore 068898

CORPORATE INFORMATION

FINANCIAL ADVISER AND SPONSOR	:	SAC Capital Private Limited 1 Robinson Road #21-00 AIA Tower Singapore 048542
REPORTING ACCOUNTANT OF THE ENLARGED GROUP	:	Ernst & Young LLP Public Accountants and Chartered Accountants One Raffles Quay North Tower, Level 18 Singapore 048583 Partner-in-charge: Mr Adrian Koh (Chartered Accountant, a member of the Institute of Singapore Chartered Accountants)
AUDITOR TO THE COMPANY	:	Foo Kon Tan LLP Public Accountants and Chartered Accountants 24 Raffles Place #07-03 Clifford Centre Singapore 048621 Partner-in-charge: Mr Ho Teik Tiong (Chartered Accountant, Institute of Singapore Chartered Accountants)
INDEPENDENT AUDITOR TO THE TARGET GROUP	:	Ernst & Young LLP Public Accountants and Chartered Accountants One Raffles Quay North Tower, Level 18 Singapore 048583 Partner-in-charge: Mr Adrian Koh (Chartered Accountant, a member of the Institute of Singapore Chartered Accountants)
LEGAL ADVISER TO THE COMPANY AS TO SINGAPORE LAW	:	Lee & Lee 50 Raffles Place #06-00 Singapore Land Tower Singapore 048623
LEGAL ADVISER TO THE COMPANY AS TO MALAYSIA LAW	:	Jeff Leong, Poon & Wong B-11-8, Level 11, Megan Avenue II Jalan Yap Kwan Seng 50450 Kuala Lumpur Malaysia

CORPORATE INFORMATION

LEGAL ADVISERS TO THE COMPANY AS TO CAMBODIA LAW	: Bun & Associates #29, St. 294 Phnom Penh Cambodia Heng & Partners Law Group #16-01, Oval Office Tower No. 1, Street 360, BKK 1 Phnom Penh Cambodia
LEGAL ADVISER TO THE COMPANY AS TO SEYCHELLES LAW	: Appleby Suite 202 2nd Floor Eden Plaza Eden Island, P.O Box 1352 Mahé Seychelles
LEGAL ADVISER TO THE FINANCIAL ADVISED AND SPONSOR AS TO SINGAPORE LAW	: Chancery Law Corporation 138 Robinson Road #26-03 Oxley Tower Singapore 068906
INDEPENDENT FINANCIAL ADVISER IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION	: Xandar Capital Pte. Ltd. 3 Shenton Way #24-02 Shenton House Singapore 068805
BUSINESS VALUER	: Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F Three Pacific Place 1 Queen's Road East Hong Kong
ADVISOR TO THE VENDOR	: Compass Consulting Pte. Ltd. 302 Orchard Road #07-03 Tong Building Singapore 238862
PRINCIPAL BANKERS TO THE COMPANY	: United Overseas Bank Limited 80 Raffles Place UOB Plaza Singapore 048624 Oversea-Chinese Banking Corporation Limited OCBC Centre 65 Chulia Street Singapore 049513

CORPORATE INFORMATION

**PRINCIPAL BANKERS TO THE
TARGET GROUP**

: **Malayan Banking Berhad**
No. 84 (Level 2), Jalan Rahmat
83000 Batu Pahat, Johor
Malaysia

United Overseas Bank (Malaysia) Berhad
South Area Centre
1st Floor, No. 8 Jalan Ponderosa 2/1
Taman Ponderosa
81100 Johor Bahru
Malaysia

Standard Chartered Bank Malaysia Berhad
Level 15, Menara Standard Chartered
30, Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

DEFINITIONS

In this Circular (including the Target Letter (as defined herein)), unless the context otherwise requires, the following terms or expressions shall have the following meanings:

Entities within the Enlarged Group

“Callisto Cambodia”	:	Callisto Apparel (Cambodia) Co., Ltd.
“Callisto Singapore”	:	Callisto Apparel Holdings Pte. Ltd.
“Company”	:	Lereno Bio-Chem Ltd.
“Enlarged Group”	:	The enlarged group of companies comprising the Company and the Target Group after Completion
“Group”	:	The Company and its subsidiary as at the date of this Circular
“KTH”	:	Knit Textile Holdings Sdn. Bhd.
“KTM”	:	Knit Textiles Mfg. Sdn. Bhd.
“Moon Cambodia”	:	Moon Apparel (Cambodia) Co., Ltd.
“Moon Singapore”	:	Moon Apparel Holdings Pte. Ltd.
“OAE”	:	Ocean Art & Embellishment Sdn. Bhd.
“Target”	:	Knit Textile and Apparel Pte. Ltd.
“Target Group”	:	The Target and the Target Subsidiaries, and “Target Group Company” means any one of them
“Target Subsidiaries”	:	Callisto Cambodia, Callisto Singapore, KTH, KTM, Moon Cambodia, Moon Singapore, OAE and Xentika, and “Target Subsidiary” means any one of them
“Xentika”	:	Xentika Limited

Other Entities

“ACRA”	:	The Accounting and Corporate Regulatory Authority of Singapore
“Advisor”	:	Compass Consulting Pte. Ltd.
“Authority”	:	The Monetary Authority of Singapore
“Bank Negara”	:	Bank Negara Malaysia, the Malaysian central bank

DEFINITIONS

“Bin Tai”	:	Bin Tai Holdings Private Limited, a Controlling Shareholder of the Company as at the Latest Practicable Date
“Business Valuer”	:	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
“CDP”	:	The Central Depository (Pte) Limited
“Family Trust”, “Family Trust Company” and “Family Trustee Company”	:	Have the meanings given to them in Section 2.4.3(a)(i) of this Circular
“Financial Adviser”, “Sponsor” or “SAC Capital”	:	SAC Capital Private Limited
“IFA”	:	Xandar Capital Pte. Ltd.
“Nexia TS”	:	Nexia TS Pte. Ltd., which was engaged to conduct an internal controls review of the Target Group’s key business processes
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Share Registrar and Share Transfer Agent”	:	Tricor Barbinder Share Registration Services
“SIC”	:	Securities Industry Council of Singapore
<i>General</i>		
“1H”	:	The six-month financial period ended or ending 30 June, as the case may be
“Accumulated Losses”	:	Has the meaning given to it in Section 5.1 of this Circular
“Advisor Shares”	:	The aggregate of 5,500,000 Consideration Shares, that is equivalent to S\$1.1 million divided by the Issue Price, to be allotted and issued at the Issue Price to the Advisor and/or its nominees at the direction of the Vendor, in full and final settlement of fees for the services of the Advisor to the Vendor
“AGM”	:	Annual General Meeting of the Company

DEFINITIONS

“Amount Owing”	:	The aggregate amount owed and/or owing from the Company to any third parties, including any amount owed and/or owing to certain of the Directors and the Controlling Shareholders due to: (a) loans from the Controlling Shareholders to the Company; and (b) accruals for staff and other expenses, as at the Completion Date
“Amount Owing Cap”	:	S\$4.8 million, being the maximum of the Amount Owing for the purpose of computation of the number of Settlement Shares
“Article”	:	Article of the Existing Constitution
“Bin Tai Placement”	:	Has the meaning given to it in Section 2.9.3 of this Circular
“Board”	:	The board of Directors as at the date of this Circular
“Business Valuation Report”	:	The independent business valuation report dated 21 December 2018 prepared by the Business Valuer on the valuation of 100% equity interest in the Target Group, as set out in Appendix G entitled “Business Valuation Report” of this Circular
“Call Option”	:	Has the meaning given to it in Section 2.1.1(a) of this Circular
“Cambodia”	:	The Kingdom of Cambodia
“Cambodian Manufacturing Facilities”	:	The two (2) manufacturing facilities in Cambodia operated by Callisto Cambodia and Moon Cambodia
“Catalist”	:	The sponsor-supervised listing platform of the SGX-ST
“Catalist Rules”	:	The rules in the Listing Manual Section B: Rules of Catalist of the SGX-ST, as may be amended, varied or supplemented from time to time
“CEO”	:	Chief Executive Officer
“Code”	:	The Singapore Code on Take-overs and Mergers, as may be amended, varied or supplemented from time to time
“Code of Corporate Governance 2012”	:	The Singapore Code of Corporate Governance 2012, as may be amended, varied or supplemented from time to time
“Code of Corporate Governance 2018”	:	The Singapore Code of Corporate Governance 2018, as may be amended, varied or supplemented from time to time

DEFINITIONS

“Companies Act”	:	The Companies Act, Chapter 50 of Singapore, as may be amended, varied or supplemented from time to time
“Completion”	:	Completion of the Proposed Acquisition in accordance with the Option Agreement
“Completion Date”	:	The date on which Completion occurs
“Conditions”	:	Has the meaning given to it in Section 2.5 of this Circular
“Consideration”	:	The aggregate sum of S\$26.4 million, being the aggregate consideration for the Proposed Acquisition, to be satisfied by the allotment and issue of the Consideration Shares
“Consideration Shares”	:	The aggregate of 132,000,000 new Consolidated Shares to be allotted and issued at the Issue Price in satisfaction of the Consideration, comprising: (a) the Vendor Consideration Shares; and (b) the Advisor Shares
“Consolidated Shares”	:	The consolidated Shares after completion of the Proposed Share Consolidation
“Consolidation Books Closure Date”	:	The time and date to be determined by the Board after consultation with the Financial Adviser and Sponsor for compliance with the relevant Catalist Rules, at and on which the Register of Members and share transfer books of the Company will be closed to determine the entitlements of Consolidated Shares of Shareholders pursuant to the Proposed Share Consolidation
“Controlling Shareholder”	:	<p>A person who (as defined in the Catalist Rules):</p> <p>(a) holds directly or indirectly 15.0% or more of the aggregate of all voting shares in the company (unless otherwise determined by the SGX-ST); or</p> <p>(b) in fact exercises control over a company</p> <p>or may have the meaning given to it in the SFR if the context so requires</p>
“COO”	:	Chief Operating Officer
“Creditor Objection Period”	:	Has the meaning given to it in Section 5.6 of this Circular
“Directors”	:	The directors of the Company as at the date of this Circular

DEFINITIONS

“Effective Trading Date”	:	The date on which the Consolidated Shares will trade on Catalist in board lots of 100 Consolidated Shares
“EGM”	:	The extraordinary general meeting of the Company, notice of which is set out on pages N-1 to N-6 of this Circular
“Enlarged Number of Issued Shares”	:	The total number of issued Consolidated Shares after the Proposed Share Consolidation, and after the allotment and issue of the Consideration Shares, the Transaction Costs Shares and the Settlement Shares being, for the purpose of this Circular and assuming Transaction Costs of S\$2.0 million, 169,681,592 Consolidated Shares
“EU”	:	European Union, including as at the Latest Practicable Date, the UK (except in respect of Section 6 entitled “Management’s Discussion and Analysis of Results of Operations and Financial Position of the Target Group” of the Target Letter)
“Existing Audit Committee”	:	The audit committee of the Company as at the date of this Circular
“Existing Constitution”	:	The existing constitution of the Company, which was previously known as the memorandum and articles of association of the Company immediately before 3 January 2016
“FSA”	:	The Financial Services Act 2013 of Malaysia, as amended, varied or supplemented from time to time
“FY”	:	<p>In relation to:</p> <p>(a) the Company:</p> <p style="padding-left: 40px;">(i) except as provided in paragraph (ii) below, and for the financial year ended prior to 31 March 2017, the financial year ended 31 March;</p> <p style="padding-left: 40px;">(ii) commencing from 1 April 2017, following the change in financial year end of the Company from 31 March to 31 December, the financial year ended or ending 31 December</p> <p>(b) the Target and the Target Group Companies, the financial year ended or ending 31 December</p>

DEFINITIONS

“IFA Letter”	:	The letter from the IFA to the Recommending Directors in relation to the Proposed Whitewash Resolution as set out in Appendix B entitled “Letter from the IFA to the Recommending Directors in respect of the Proposed Whitewash Resolution” of this Circular
“IFSA”	:	The Islamic Financial Services Act 2013 of Malaysia, as amended, varied or supplemented from time to time
“Independent Shareholders”	:	Shareholders who are considered independent for the purpose of the Proposed Whitewash Resolution
“Interested Person”	:	Has the meaning given to it in the Catalist Rules
“Interested Person Transactions”	:	Transactions proposed to be entered or entered into between an entity at risk and an Interested Person, and has the meaning given to it in the Catalist Rules
“Issue Price”	:	The issue price of S\$0.20 for each Consideration Share, each Transaction Costs Share and each Settlement Share, assuming that the Proposed Share Consolidation had been completed
“KTM Manufacturing Facility”	:	The manufacturing facility in Malaysia operated by KTM
“Latest Practicable Date”	:	10 December 2018, being the latest practicable date prior to the lodgement of this Circular with the SGX-ST acting as agent on behalf of the Authority
“Long Stop Date”	:	Has the meaning given to it in Section 2.5 of this Circular
“Market Day”	:	A day on which the SGX-ST is open for securities trading
“Mr Ong”	:	Mr Ong Puay Koon, the Managing Director and Chief Executive Officer, and Controlling Shareholder, of the Company
“Mrs Lim”	:	Ms Cheong Swee Lan, wife of Mr Lim Siau Hing
“New Audit Committee”	:	The new audit committee of the Enlarged Group upon Completion
“New Board”	:	The new board of directors of the Company to be appointed upon Completion, comprising the New Directors

DEFINITIONS

“New Constitution”	:	The new constitution of the Company, which is proposed to replace the Existing Constitution, after the Proposed Amendments to the Existing Constitution primarily to comply with the Catalist Rules and the Personal Data Protection Act
“New Directors”	:	The directors proposed to be appointed to the New Board upon Completion, being the New Executive Directors and the New Independent Directors
“New Executive Directors”	:	The new executive directors proposed to be appointed to the New Board upon Completion, being Mr Lim Siau Hing and Mr Lim Vhe Kai
“New Executive Officers”	:	The new executive officers proposed to be appointed to the Company upon Completion, being Mr Chew Chong Kiat and Mr Low Yong Heng
“New Fabric Dyeing Facility”	:	The new fabric dyeing and finishing facility of the Target Group in Malaysia
“New Independent Directors”	:	The new non-executive and independent directors proposed to be appointed to the New Board upon Completion, being Mr Goh Yeow Tin, Mr Yap Boh Pin and Mr Koh Boon Huat
“New Nominating Committee”	:	The new nominating committee of the Enlarged Group upon Completion
“New Remuneration Committee”	:	The new remuneration committee of the Enlarged Group upon Completion
“Notice of EGM”	:	Notice of the EGM as set out on pages N-1 to N-6 of this Circular
“NTA”	:	Net tangible assets
“NTL”	:	Net tangible liabilities
“Official List”	:	The list of issuers maintained by the SGX-ST in relation to the Catalist
“Option Agreement”	:	The conditional put and call option agreement dated 27 September 2017 between the Vendor and the Company in relation to the Proposed Acquisition, as amended and supplemented by the supplemental agreement dated 13 February 2018 and the second supplemental agreement dated 31 August 2018 between the Vendor and the Company

DEFINITIONS

“Option Period”	:	Has the meaning given to it in Section 2.1.1 of this Circular
“Option Shares”	:	100% of the issued ordinary shares in the capital of the Target
“Ordinary Resolutions”	:	Ordinary Resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 as set out in the Notice of EGM, and “Ordinary Resolution” shall mean any one of them
“Periods Under Review”	:	The financial periods comprising FY2015, FY2016, FY2017 and 1H2018
“Personal Data Protection Act”	:	The Personal Data Protection Act 2012 (No. 26 of 2012) of Singapore, as may be amended, varied or supplemented from time to time
“PRC”	:	People’s Republic of China
“Proposed Acquisition”	:	The proposed acquisition of the entire issued and paid-up share capital of the Target by the Company from the Vendor at the Consideration, upon and subject to the terms and conditions of the Option Agreement
“Proposed Amendments to the Existing Constitution”	:	The proposed amendments to the Existing Constitution, details of which are set out in Section 9 entitled “Proposed Amendments to the Existing Constitution” of this Circular
“Proposed Appointment of the New Directors”	:	The proposed appointment or re-election of the New Directors (as the case may be) to the New Board upon Completion, details of which are set out in Section 6 entitled “Proposed Appointment of the New Directors” of this Circular
“Proposed Capital Reduction”	:	The proposed capital reduction exercise to be carried out by the Company, pursuant to section 78A read with section 78C of the Companies Act, to reduce the issued and paid-up share capital of the Company from S\$36,827,431 as at the Latest Practicable Date to S\$1,000 by the cancellation of the issued and paid-up share capital of the Company that has been lost or is unrepresented by available assets to the extent of S\$36,826,431
“Proposed Change of Name”	:	The proposed change of name of the Company from “Lereno Bio-Chem Ltd.” to “KTMG Limited”, details of which are set out in Section 7 entitled “Proposed Change of Name” of this Circular

DEFINITIONS

“Proposed General Share Issue Mandate”	:	The proposed grant of a general mandate by Shareholders for the allotment and issue of new Shares, details of which are set out in Section 8 entitled “Proposed General Share Issue Mandate” of this Circular
“Proposed Share Consolidation”	:	The proposed consolidation of every twenty (20) existing Shares at the Consolidation Books Closure Date into one (1) Consolidated Share, details of which are set out in Section 4 entitled “Proposed Share Consolidation” of this Circular
“Proposed Transactions”	:	<p>The proposed transactions in this Circular, comprising:</p> <ul style="list-style-type: none"> (a) the Proposed Acquisition; (b) the proposed allotment and issue of the Consideration Shares; (c) the Proposed Whitewash Resolution; (d) the proposed allotment and issue of the Transaction Costs Shares; (e) the proposed allotment and issue of the Settlement Shares as an interested person transaction; (f) the Proposed Share Consolidation; (g) the Proposed Capital Reduction; (h) the Proposed Appointment of the New Directors; (i) the Proposed Change of Name; (j) the Proposed Amendments to the Existing Constitution; and (k) the Proposed General Share Issue Mandate
“Proposed Whitewash Resolution”	:	A separate resolution of a majority of the Independent Shareholders in a general meeting of the Company to waive their right to receive a mandatory general offer from the Vendor and the Family Trust Company who would incur an obligation to make a general offer under Rule 14 of the Code for all of the Shares not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and persons acting in concert with them as a result of the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares, details of which are set out in Section 3 entitled “Proposed Whitewash Resolution” of this Circular

DEFINITIONS

“Proxy Form”	:	The proxy form in respect of the EGM as set out in this Circular
“Put Option”	:	Has the meaning given to it in Section 2.1.1(b) of this Circular
“Recommending Directors”	:	The Directors who are considered independent for the purposes of making the recommendation to Independent Shareholders, being all the Directors other than Mr Ong and Mr Ong Choon Lui, in relation to the Proposed Whitewash Resolution
“Register of Members”	:	The register of members of the Company
“Registrar”	:	Registrar of Companies appointed under the Companies Act and includes any Deputy or Assistant Registrar of Companies
“Relevant KTM Land”	:	Has the meaning given to it in Section 4.14.1 of the Target Letter
“Restructuring Exercise”	:	The corporate restructuring exercise pursuant to which the Target Group would be formed, and details of which are set out in Section 3.1 entitled “Restructuring Exercise” of the Target Letter
“Securities Account”	:	Securities account maintained by a Depositor with CDP but does not include a securities sub-account maintained with a Depository Agent
“Settlement Shareholders”	:	Bin Tai and Mr Ong
“Settlement Shareholders’ Undertaking”	:	The undertaking dated 17 December 2018 by the Settlement Shareholders in favour of the Company and the Vendor in relation to, among other things, voting at the EGM and the Bin Tai Placement
“Settlement Shares”	:	The aggregate of 24,000,000 Consolidated Shares, being equivalent to the Amount Owing (subject to the Amount Owing Cap) divided by the Issue Price, to be allotted and issued to Bin Tai at the Issue Price in full and final settlement of the Amount Owing
“SFA”	:	The Securities and Futures Act, Chapter 289 of Singapore, as may be amended, varied or supplemented from time to time

DEFINITIONS

“SFR”	:	The Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018, as may be amended, varied or supplemented from time to time
“SFRS”	:	Singapore Financial Reporting Standards
“SFRS(I)”	:	Singapore Financial Reporting Standards (International)
“SGXNET”	:	Singapore Exchange Network, the corporate announcement system maintained by the SGX-ST for the submission of announcements by listed companies
“Shareholders”	:	Registered holders of Shares in the Register of Members, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Accounts maintained with CDP are credited with Shares
“Shares”	:	Ordinary shares in the capital of the Company, which includes Consolidated Shares. For the avoidance of doubt, unless otherwise referred to as Consolidated Shares, Shares shall mean the ordinary shares in the capital of the Company prior to the completion of the Proposed Share Consolidation
“Special Resolutions”	:	Special Resolutions 1, 2 and 3 as set out in the Notice of EGM, and “Special Resolution” shall mean any one of them
“Substantial Shareholder”	:	A person who has an interest in one (1) or more voting shares of a company and the total votes attaching to that share, or those shares, is not less than 5.0% of the total votes attaching to all the voting shares in the company
“Target Business”	:	Has the meaning given to it in Section 2.1.3 of this Circular
“Target Letter”	:	The letter to Shareholders from the New Directors set out in Appendix A entitled “Letter to Shareholders from the New Directors” of this Circular
“Target Shares”	:	Ordinary shares in the capital of the Target
“Transaction Costs”	:	Has the meaning given to it in Section 2.8 entitled “Transaction Costs” of this Circular

DEFINITIONS

“Transaction Costs Shares”	:	The Consolidated Shares to be allotted and issued at the Issue Price to the Vendor and/or his nominees in full and final settlement of the Transaction Costs which, assuming Transaction Costs of S\$2.0 million, will be 10,000,000 Consolidated Shares
“UK”	:	United Kingdom of Great Britain and Northern Ireland
“US”	:	United States of America
“Vendor” or “Mr Lim Siau Hing”	:	Mr Lim Siau Hing @ Lim Kim Hoe
“Vendor Consideration Shares”	:	The aggregate of 126,500,000 new Consolidated Shares (being the total number of the Consideration Shares less the Advisor Shares) to be allotted and issued to the Vendor and/or his nominees at the Issue Price upon Completion
“Vendor Undertaking”	:	The deed of undertaking dated 17 December 2018 by the Vendor in favour of the Company pursuant to which the Vendor undertook, among other things, to indemnify the Company on certain matters relating to the Target Group
“Whitewash Waiver”	:	Has the meaning given to it in Section 2.5.1(b)(iii) of this Circular

Currencies, Units of Measurement and Others

“C\$”	:	Canadian dollars
“€”	:	Euros
“KHR”	:	Cambodian Riel
“RM”	:	Ringgit Malaysia
“S\$” and “cents”	:	Singapore dollars and cents, respectively
“US\$”	:	United States dollars
“Sq m”	:	Square metres
“%”	:	Percentage or per centum

The term **“subsidiary”** shall have the meaning given to it in section 5 of the Companies Act.

The term **“associated company”** shall have the meaning given to it in the Fourth Schedule of the SFR.

DEFINITIONS

The term “**associate**” shall have the meaning given to it in the Catalist Rules.

The term “**entity at risk**” shall have the meaning given to it in the Catalist Rules, or in paragraph 1 of the Fourth Schedule of the SFR if the context requires.

The terms “**acting in concert**” and “**concert parties**” shall have the meanings given to them respectively in the Code.

The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the meanings given to them respectively in section 81SF of the SFA.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations.

Any reference in this Circular to “**Rule**” or “**Chapter**” is a reference to the relevant rule or chapter in the Catalist Rules, unless otherwise stated.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted. Any term defined under the SFA, the SFR, the Companies Act, the Catalist Rules or the Code or any modification thereof and used in this Circular shall, where applicable, have the meaning given to it under the SFA, the SFR, the Companies Act, the Catalist Rules or the Code or any modification thereof, as the case may be, unless the context requires otherwise.

Any reference in this Circular to Shares and/or new Shares being allotted and/or allocated to a person includes allotment and/or allocation to CDP for the account of that person.

Any reference to a time of day and date in this Circular shall be a reference to Singapore time and date, unless otherwise stated.

Any discrepancies in tables included herein between the amounts listed and the totals shown thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

EXCHANGE RATES

As at the Latest Practicable Date, the closing exchange rate between RM and S\$ is RM0.3293 to S\$1, and the closing exchange rate between US\$ and S\$ is US\$1.3737 to S\$1.

The following table sets out the average and closing exchange rates for the respective financial years and/or financial periods set out in this Circular. The average exchange rates are calculated using the average of the exchange rates on the last day of each month during each financial year or financial period.

Period	RM/S\$		US/S\$	
	Average	Closing	Average	Closing
FY2015	0.3519	0.3303	1.3788	1.4185
FY2016	0.3340	0.3224	1.3821	1.4468
FY2017	0.3210	0.3298	1.3735	1.3360
1H2018	0.3376	0.3377	1.3291	1.3624

The table below sets out the highest and lowest exchange rates for each month for the past six (6) completed months prior to the Latest Practicable Date.

Period	RM/S\$		US/S\$	
	Highest	Lowest	Highest	Lowest
June 2018	0.3995	0.3347	1.3677	1.3325
July 2018	0.3389	0.3352	1.3708	1.3567
August 2018	0.3363	0.3316	1.3802	1.3615
September 2018	0.3337	0.3297	1.3802	1.3615
October 2018	0.3334	0.3297	1.3289	1.3655
November 2018	0.3311	0.3268	1.3857	1.3717
December 2018 ⁽¹⁾	0.3293	0.3282	1.3737	1.3653

Note:

(1) For the period commencing from 1 December 2018 to the Latest Practicable Date.

The exchange rates quoted in the tables above have been extracted from Bloomberg L.P. and should not be construed as a representation that the RM or US\$ amounts (as the case may be) actually represent such amounts or can be converted into S\$ at the rate indicated or any other rate or at all. Bloomberg L.P. has not consented to the inclusion of the exchange rates quoted under this section for the purposes of section 249 of the SFA and is thereby not liable for these exchange rates under sections 253 and 254 of the SFA.

While the Directors have taken reasonable action to ensure that the information is extracted accurately and fairly, and has been included in this Circular in its proper form and context, they have not independently verified the accuracy of the relevant information.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Circular, statements made in the press releases and oral statements that may be made by the Company, the Target Group, the Enlarged Group, the Vendor, or by their respective directors, key executives or employees acting on their behalf, that are not statements of historical fact, constitute “forward-looking statements”. Some of these statements can be identified by words that are biased or by forward-looking terms such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “if”, “intend”, “may”, “plan”, “possible”, “probable”, “project”, “will”, “would” and “should” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. Forward-looking statements include, without limitation, statements as to expected financial position, expected revenue and profitability, cost measures, business strategies, plans and prospects, expected growth in demand, expected industry trends and developments, anticipated expansion plans and completion and start-up dates for projects.

Forward-looking statements are only predictions and reflect current views with respect to future events. These statements are based on beliefs and assumptions of management of the Company and/or the Target Group, which in turn are based on currently available information. Although the Company and/or the Target Group believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate, and the forward-looking statements based on these assumptions could be incorrect.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, the Target Group and the Enlarged Group to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, amongst others:

- the regulatory environment, as well as laws and regulations, in the countries in which the Company, the Target Group and/or the Enlarged Group operate or intend to operate;
- the overall economic environment and general economic and market conditions in the countries in which the Company, the Target Group and/or the Enlarged Group operate or intend to operate;
- competition in the apparel contract manufacturing industry in the countries in which the Company, the Target Group and/or the Enlarged Group operate or intend to operate;
- the ability of the Company, the Target Group and/or the Enlarged Group to anticipate and respond to changes in the apparel contract manufacturing industry;
- the ability of the Company, the Target Group and/or the Enlarged Group to execute their business strategies and plans and to achieve their anticipated growth;
- changes in the markets in which the Company, the Target Group and/or the Enlarged Group operate or intend to operate, and in customer demands, trends and preferences;
- changes in foreign currency exchange or interest rates;
- changes in the future capital needs of the Company, the Target Group and/or the Enlarged Group and the availability of financing and capital to fund these needs;

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

- other matters not yet known to the Company, the Target Group and/or the Enlarged Group; and
- other factors beyond the control of the Company, the Target Group and/or the Enlarged Group.

Some of these risks, uncertainties and other factors are discussed in greater detail in this Circular, including, but not limited to, the discussions under Section 16 entitled “Risk Factors” of this Circular and Section 6 entitled “Management’s Discussion and Analysis of Results of Operations and Financial Position of the Target Group” of the Target Letter.

All forward-looking statements made by or attributable to the Company, the Target Group, the Enlarged Group or the Vendor and/or person(s) acting on their behalf, contained in this Circular are expressly qualified in their entirety by such risks, uncertainties and other factors. The actual future results, performance or achievements of the Company, the Target Group and/or the Enlarged Group may differ materially from those anticipated in these forward-looking statements as a result of these risks, uncertainties and other factors.

Given the risks, uncertainties and other factors that may cause the actual future results, performance or achievements of the Company, the Target Group and/or the Enlarged Group to be materially different from those expected, expressed or implied by the forward-looking statements in this Circular, undue reliance must not be placed on those statements which apply only as at the date of this Circular.

None of the Company, the Target Group, the Enlarged Group, the Vendor, the Financial Adviser and Sponsor or any other person represents or warrants that the actual future results, performance or achievements of the Company, the Target Group and/or the Enlarged Group will be as discussed in those statements. The actual future results, performance or achievements of the Company, the Target Group and/or the Enlarged Group may differ materially from those anticipated in these forward-looking statements.

Further, the Company, the Target Group, the Enlarged Group, the Vendor and the Financial Adviser and Sponsor disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances for any reason, even if new information becomes available or other events occur in the future, subject to compliance with all applicable laws and regulations and/or rules of the SGX-ST and/or any regulatory or supervisory body or agency.

Upon Completion, the Enlarged Group will be subject to the provisions of the SFA and the Catalyst Rules regarding corporate disclosure.

MARKET AND INDUSTRY INFORMATION

This Circular contains certain data, statistics and forecasts relating to, among other things, the apparel and/or clothing industry, and import and export of and domestic spending on apparel and/or clothing, and population demographics (including in particular with reference to age and weight), globally as well as specifically in the US, EU and Canada. Such data, statistics and forecasts are obtained from, among others, industry publications and surveys, statistical and other reports of the relevant governmental agencies in the relevant jurisdictions, and other publicly available information. None of the Company, the Target Group, the Enlarged Group or the Vendor, or their respective directors and executive officers, has obtained the specific consent of these sources for the inclusion of such information in this Circular.

The Company, the Target Group, the Enlarged Group, the Vendor and their respective directors and executive officers have taken reasonable action to ensure that the data, statistics and forecasts used in this Circular have been extracted from their respective sources in their proper form and context. However, the Company, the Target Group, the Enlarged Group, the Vendor and their respective directors and executive officers have not verified the accuracy of the data, statistics and forecasts extracted or ascertained any underlying assumptions and/or qualifications to which the same may be subject. None of the Company, the Target Group, the Enlarged Group or the Vendor, or their respective directors and executive officers, makes any representation or warranty as to the accuracy or completeness of such data, statistics and forecasts and are not obliged to provide any updates on the same.

Without prejudice to the generality of the foregoing, certain data in this Circular were extracted from data and other information published by, among others, the World Trade Organisation, Eurostat, US Census Bureau, US Department of Health and Human Services, the Office of Consumer Affairs of Canada, Statistics Canada, the World Bank and the United States Department of Agriculture. None of these organisations has provided its consent, for the purpose of section 249 of the SFA, to the inclusion of the relevant information in this Circular and is thereby not liable for the relevant information under sections 253 and 254 of the SFA. Whilst reasonable action has been taken to ensure that the relevant information is reproduced in its proper form and context, and that the information is extracted fairly and accurately, none of the Company, the Target Group, the Enlarged Group or the Vendor, or their respective directors or executive officers, has conducted an independent review of such information nor verified the accuracy of the contents of such information.

INDICATIVE TIMETABLE

The following indicative timetable assumes the approval for all resolutions proposed at the EGM is obtained on 18 January 2019:

In relation to the Proposed Acquisition and Proposed Share Consolidation

Last date and time for lodgement of the Proxy Form	16 January 2019 at 10.00 a.m.
Date and time of the EGM	18 January 2019 at 10.00 a.m.
Expected Consolidation Books Closure Date	28 January 2019 at 5.00 p.m.
Expected effective date of the Proposed Share Consolidation	29 January 2019 at 9.00 a.m.
Expected Completion Date	11 February 2019
Expected date of suspension of trading of the Shares	11 February 2019

In relation to the Proposed Capital Reduction

Commencement of Creditor Objection Period ⁽¹⁾	18 January 2019
End of Creditor Objection Period ⁽¹⁾	1 March 2019
Expected effective date of Proposed Capital Reduction ⁽²⁾	5 March 2019

In relation to the Bin Tai Placement

Commencement of Bin Tai Placement	11 February 2019
Completion of Bin Tai Placement ⁽³⁾	10 May 2019
Expected date of the commencement of trading of the Consolidated Shares, the Consideration Shares, the Transaction Costs Shares and the Settlement Shares ⁽³⁾	13 May 2019

Notes:

- (1) During the period of six (6) weeks beginning from the date on which the Special Resolution 1 on the Proposed Capital Reduction is passed, creditors are entitled to apply to court to cancel the special resolution. The above indicative timetable assumes that no application is made for the cancellation of the special resolution or any such cancellation is dismissed or withdrawn within such period of six (6) weeks. See further Section 5 entitled “Proposed Capital Reduction” of this Circular.
- (2) This assumes that the Company will lodge the necessary documents required under sections 78E(2)(i) and (ii) of the Companies Act with the Registrar within two (2) working days from the expiry of the period of six (6) weeks referred to above. See further Section 5 entitled “Proposed Capital Reduction” of this Circular.
- (3) This assumes that the Bin Tai Placement will be completed within two (2) to three (3) months from Completion, and trading will be resumed on the next market day after completion of the Bin Tai Placement. If the Bin Tai Placement is completed earlier, the Company will apply to the SGX-ST for resumption of trading in the Shares on an earlier date and will keep Shareholders updated by way of announcement through the SGX-ST’s website at <http://www.sgx.com>.

Shareholders should note that the dates above which are stated to be “expected” are indicative only and may be subject to change. Please refer to future announcement(s) by the Company on the SGXNET for the exact dates and times of these events. Where necessary, the Company may announce any changes to the timetable through the SGX-ST’s website at <http://www.sgx.com>.

**LETTER TO SHAREHOLDERS FROM
THE BOARD OF DIRECTORS OF THE COMPANY**

LERENO BIO-CHEM LTD.

(Incorporated in the Republic of Singapore on 7 November 1974)
(Company Registration Number: 197401961C)

Board of Directors:

Tan Sri Dato' Kamaruzzaman Bin Shariff
(Non-Executive Chairman and Independent Director)
Mr Ong Puay Koon *(Managing Director and Chief Executive Officer)*
Mr Ong Choon Lui *(Executive Director)*
Mr Goh Yeow Tin *(Non-Executive and Independent Director)*
Mr Wong Heang Fine *(Non-Executive and Independent Director)*
Mr Yap Boh Pin *(Non-Executive and Independent Director)*

Registered Office:

80 Robinson Road
#02-00
Singapore 068898

21 December 2018

To: The Shareholders of Lereno Bio-Chem Ltd.

Dear Sir/Madam,

- (1) THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF KNIT TEXTILE AND APPAREL PTE. LTD. FOR A CONSIDERATION OF S\$26.4 MILLION;
- (2) THE PROPOSED ALLOTMENT AND ISSUE OF THE CONSIDERATION SHARES IN SATISFACTION OF THE CONSIDERATION FOR THE PROPOSED ACQUISITION;
- (3) THE PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER BY INDEPENDENT SHAREHOLDERS OF THEIR RIGHT TO RECEIVE A MANDATORY GENERAL OFFER FROM THE VENDOR AND THE FAMILY TRUST COMPANY FOR ALL THE SHARES IN ISSUE NOT ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE VENDOR, THE FAMILY TRUST COMPANY AND THEIR CONCERT PARTIES ON COMPLETION OF THE PROPOSED ACQUISITION;
- (4) THE PROPOSED ALLOTMENT AND ISSUE OF THE TRANSACTION COSTS SHARES;
- (5) THE PROPOSED ALLOTMENT AND ISSUE OF THE SETTLEMENT SHARES AS AN INTERESTED PERSON TRANSACTION;
- (6) THE PROPOSED SHARE CONSOLIDATION OF EVERY TWENTY (20) ORDINARY SHARES INTO ONE (1) CONSOLIDATED SHARE (FRACTIONAL ENTITLEMENTS TO BE DISREGARDED);
- (7) THE PROPOSED CAPITAL REDUCTION;
- (8) THE PROPOSED APPOINTMENT OF THE NEW DIRECTORS UPON COMPLETION OF THE PROPOSED ACQUISITION;

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

- (9) THE PROPOSED CHANGE OF NAME OF THE COMPANY FROM “LERENO BIO-CHEM LTD.” TO “KTMG LIMITED”;**
- (10) THE PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION OF THE COMPANY;
AND**
- (11) THE PROPOSED ADOPTION OF A GENERAL MANDATE FOR THE ALLOTMENT AND
ISSUE OF NEW SHARES.**

1. INTRODUCTION

1.1 Background

On 29 September 2017, the Company announced that it had entered into the Option Agreement with the Vendor to acquire 100% of the issued ordinary shares in the capital of the Target upon and subject to the terms and conditions of the Option Agreement.

The Consideration for the Proposed Acquisition is S\$26.4 million, and will be satisfied in full by the allotment and issue of the Consideration Shares at the Issue Price.

The relative figures under Rules 1006(b), 1006(c) and 1006(d) of the Catalist Rules in respect of the Proposed Acquisition exceed 100%, and the Proposed Acquisition will also result in a change in control of the Company upon Completion. As such, the Proposed Acquisition constitutes a “Reverse Takeover” pursuant to Chapter 10 of the Catalist Rules, and is subject to (among other things) the approval of the Shareholders at the EGM and the issue of a listing and quotation notice by the SGX-ST.

An application has been made to the SIC, and the SIC has granted the Vendor and the Family Trust Company a waiver of the requirement to make a mandatory general offer for Shares in issue not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties, subject to certain conditions. These conditions include, among others, the appointment of the IFA to advise Independent Shareholders on the Proposed Whitewash Resolution and the Independent Shareholders’ approval of the Proposed Whitewash Resolution. Further information on the Proposed Whitewash Resolution is set out in Section 3 entitled “Proposed Whitewash Resolution” of this Circular.

The Company has appointed SAC Capital as its Financial Adviser and Sponsor in respect of the Proposed Transactions and Xandar Capital Pte. Ltd. as the IFA to advise the Recommending Directors in respect of the Proposed Whitewash Resolution.

1.2 Purpose of this Circular

The purpose of this Circular is to provide Shareholders with information relating to, and to seek Shareholders’ approval for, the Proposed Transactions at the EGM.

The Notice of the EGM is set out in the Section entitled “Notice of Extraordinary General Meeting” of this Circular.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Shareholders should note that some of the resolutions to be presented at the EGM are conditional on the passing of certain other resolutions. Shareholders are advised to refer to Section 29 entitled “Inter-conditionality” of this Circular for further details on the inter-conditionality of these resolutions.

This Circular has been prepared solely for the purposes set out herein and may not be relied upon by any persons (other than the Shareholders to whom this Circular is despatched by the Company) or for any other purpose.

The SGX-ST assumes no responsibility for the accuracy of any of the statements made, reports contained or opinions expressed in this Circular.

2. PROPOSED ACQUISITION

2.1 Background

2.1.1 Option Agreement

The Company and the Vendor have entered into the Option Agreement, pursuant to which:

- (a) the Vendor has granted to the Company a call option, being the right of the Company to require the Vendor to sell to the Company all of the Option Shares for the Consideration (“**Call Option**”); and
- (b) the Company has granted to the Vendor a put option, being the right of the Vendor to require the Company to purchase from the Vendor all of the Option Shares for the Consideration (“**Put Option**”).

The Consideration will be satisfied by the allotment and issue of the Consideration Shares at the Issue Price.

Subject to the fulfilment or waiver of the Conditions, the Call Option or Put Option may be exercised by the Company or the Vendor (as the case may be) at any time during the period commencing from the date on which Shareholders’ approval is obtained for the Proposed Acquisition, and expiring on the date falling fourteen (14) calendar days prior to the Long Stop Date (“**Option Period**”).

Subject to the Conditions being fulfilled or waived (as the case may be), the Completion Date shall be the date falling within fourteen (14) calendar days from the date of exercise of the Call Option or Put Option, or such other date as may be mutually agreed between the Company and the Vendor.

2.1.2 Target Group

The Target is a private company incorporated in Singapore and, as at the Latest Practicable Date, has an issued and paid-up share capital of S\$2 comprising two (2) Target Shares, all of which are legally and beneficially owned by the Vendor.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Under the Option Agreement, the Vendor will undertake the Restructuring Exercise, pursuant to which the Target will directly or indirectly own 100% of the Target Subsidiaries.

Further information on the Target Group is set out in Section 3 entitled “Restructuring Exercise and Group Structure” of the Target Letter.

2.1.3 Target Business

As at the date hereof, the Target Group is engaged primarily in the business of contract manufacturing of apparels, specialising in manufacturing of nightwear, lounge wear, casual wear and plus sizes apparels in Malaysia and Cambodia, and is currently expanding upstream into the knitting, dyeing, printing and finishing of fabric (“**Target Business**”).

Upon Completion, the principal business of the Enlarged Group will be the Target Business.

Further information on the Target Business is set out in Section 4 entitled “Business Overview” of the Target Letter.

2.2 **Rationale for the Proposed Acquisition**

The Company has been a cash company since the completion of the disposal of Lereno Sdn Bhd on 17 August 2015. Under Rule 1017(2) of the Catalist Rules, the SGX-ST will proceed to remove the Company from the Official List if it is unable to meet the requirements for a new listing within twelve (12) months from the time it becomes a cash company. The Company may apply to the SGX-ST for a maximum six (6) months’ extension if it has already signed a definitive agreement for the acquisition of a new business. The acquisition must be completed during such extension period of six (6) months.

The Company had previously entered into term sheets and/or agreements for three (3) other acquisitions which were terminated prior to the Proposed Acquisition. In conjunction with the earlier proposed acquisitions, the Company had applied for and obtained extensions of the period for it to find a new business and meet the requirements for a new listing. Details of these prior proposed acquisitions and extensions of time, as announced by the Company, are summarised below:

Date of Announcement	Summary
30 June 2015	The Company announced its entry into conditional sale and purchase agreements to acquire 60% of the issued shares in the capital of HTwo Education Holdings Pte. Ltd.
17 November 2015	The Company announced that it had been informed that the disposal of its equity interest in an associated company, Lereno Sdn Bhd, had been completed on 17 August 2015 and that it had become a cash company
16 May 2016	The Company announced the termination of the proposed acquisition of HTwo Education Holdings Pte. Ltd.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Date of Announcement	Summary
27 May 2016	The Company announced its entry into a letter of intent to acquire 100% of the issued shares in the capital of Majubina Projects Sdn Bhd and its group of companies
27 June 2016	The Company announced: (a) the termination of the letter of intent to acquire Majubina Projects Sdn Bhd; and (b) the entry into a conditional sale and purchase agreement to acquire 100% of the issued shares in Kenyalang Property (S) Pte. Ltd. (" Kenyalang Acquisition ")
16 August 2016	The Company announced that the SGX-ST had granted extension of time for 6 months to 16 February 2017 for it to complete the Kenyalang Acquisition and to meet the requirements for a new listing
16 February 2017	The Company announced that it had applied to the SGX-ST for further extension of time to complete the Kenyalang Acquisition
27 March 2017	The Company announced that the SGX-ST had granted extension of time for 12 months to 15 February 2018 for it to complete the Kenyalang Acquisition and to meet the requirements for a new listing (" 15 February 2018 Extension ")
29 September 2017	The Company announced the termination of the Kenyalang Acquisition and simultaneously the entry into the Option Agreement in relation to the Proposed Acquisition

Following the entry by the Company into the Option Agreement, the Company sought the approval of the SGX-ST for the continued validity and applicability of the 15 February 2018 Extension (which was granted in respect of the Kenyalang Acquisition) to the Proposed Acquisition. On 13 November 2017, the Company announced that the SGX-ST had granted such approval, subject to certain conditions.

On 6 February 2018, the Company announced that the SGX-ST has granted further extension of time to 31 August 2018 for the Company to complete the Proposed Acquisition, subject to certain conditions.

On 29 August 2018, the Company announced that the SGX-ST has granted further extension of time to 28 February 2019 for the Company to complete the Proposed Acquisition, subject to certain conditions.

Given that the Company has been granted several extensions of time to meet the requirements for a new listing, there is no assurance that the SGX-ST will grant any further extension of time if the Proposed Acquisition is not completed. In the event that any further extension of time is not granted, the Company will have to be delisted.

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The Board has also considered the following:

- 2.2.1 The Target Group has an operating track record of around thirty (30) years and is engaged primarily in the business of contract manufacturing of apparels, specialising in manufacturing of nightwear, lounge wear, casual wear and plus sizes apparels in Malaysia and Cambodia and is currently expanding upstream into the knitting, dyeing, printing and finishing of fabric.
- 2.2.2 The Target Group has a stable and experienced management team that will become the management of the Enlarged Group upon Completion. The Vendor, who is the founder and has been managing the business of the Target Group since its establishment, will be a New Executive Director and Executive Chairman upon Completion. Mr Lim Vhe Kai, who will be a New Executive Director and CEO, and Mr Chew Chong Kiat, who will be a New Executive Officer and COO, have both been with the Target Group since 2002.
- 2.2.3 The Target Group is profitable. Based on the Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Financial Years ended 31 December 2015, 2016 and 2017 set out in **Appendix C**, and the Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Six-month Period ended 30 June 2018 set out in **Appendix E**, the Target Group achieved revenue of approximately RM140.4 million, RM160.1 million, RM218.3 million and RM106.4 million, and net profit after tax of approximately RM7.5 million, RM7.8 million, RM8.8 million and RM1.4 million, for FY2015, FY2016, FY2017 and 1H2018, respectively.

Taking into account the foregoing, and the terms and conditions of the Proposed Acquisition, the Board believes that the Target Group and the Target Business would provide the Company with the necessary recurrent business activities going forward and to meet the requirements for a new listing. As such, the Board believes that the Proposed Acquisition is likely to enhance the long-term interests of Shareholders.

2.3 Business Valuation Report

As the Proposed Acquisition constitutes a reverse takeover under Chapter 10 of the Catalist Rules, pursuant to Rule 1015(3)(a) of the Catalist Rules, a competent and independent valuer is required to be appointed to value the incoming business. The Company has commissioned Jones Lang LaSalle Corporate Appraisal and Advisory Limited to prepare a valuation report on 100% of the equity interest in the Target Group to provide Shareholders with an independent opinion of the market value of the Target Group.

The valuation was carried out on a market value basis. The market value is defined as the "estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Based on the Business Valuation Report, the market value of 100% of the equity interest in the Target Group as at 30 June 2018, based on an income approach, was S\$30.4 million.

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The market value of 100% of the equity interest in the Target Group was developed through the application of the income approach technique known as discounted cash flow method to devolve the future value of the business into a present value. The key valuation inputs include: (a) revenue growth rate at 23% in FY2018, 6% to 12% from FY2019 to FY2022, and 3% thereafter, (b) gross margin (exclude depreciation) at 16% to 18%, (c) profit margin at 2% to 4%, (d) discount rate at 11.4%, and (e) discount for lack of marketability at 14.7%. This method eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the business. Under this method, value depends on the present worth of future economic benefit to be derived from the projected income. Indications of value have been developed by discounting future projected net cash flows available for payment of shareholders' interest to their present worth at a discount rate which in the Business Valuer's opinion was appropriate for the risks of the business. In considering the appropriate discount rate to be applied, the Business Valuer had taken into account a number of factors, including the current cost of finance and the considered risk inherent in the business.

For more details on the business valuation conducted by the Business Valuer, please refer to the Business Valuation Report set out in **Appendix G** entitled "Business Valuation Report" of this Circular.

Shareholders are advised to read the Business Valuation Report carefully in its entirety before deciding whether to approve the Proposed Acquisition.

2.4 Consideration

2.4.1 Consideration

The Consideration for the sale and purchase of the Option Shares upon exercise of the Call Option or Put Option is S\$26.4 million, subject to adjustment in accordance with the Option Agreement, as described in Section 2.4.2 below.

The Consideration was arrived at on a willing-buyer and willing-seller basis, after taking into account, among other things, the earnings of the Target Group.

2.4.2 Adjustments to the Consideration

Under the Option Agreement, in the event that:

- (a) the valuation of the Target Group, based on the independent valuation report by a competent and independent valuer appointed pursuant to Rule 1015(3)(a) of the Catalyst Rules, materially deviates either way from the Consideration; and/or
- (b) any material issues and/or irregularities are uncovered in the course of due diligence which would or would reasonably be expected to cause the valuation of the Target Group to materially deviate on the downside from the Consideration, and which issues and/or irregularities are not rectified to the reasonable satisfaction of the Company,

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the Company and the Vendor shall negotiate in good faith on reasonable adjustments (if any) to be made to: (i) the Consideration; and (ii) the number of Consideration Shares to be issued. Any such adjustments would be made on or prior to submission to the SGX-ST of, among other things, the additional listing application and this Circular, failing which there shall be no adjustments and the Consideration shall remain at S\$26.4 million.

Based on the Business Valuation Report, the market value of 100% of the equity interest in the Target Group as at 30 June 2018 was S\$30.4 million based on an income approach. See further Section 2.3 entitled “Business Valuation Report” of this Circular. As the market value exceeds the Consideration, there will be no adjustment to the Consideration, which will remain as S\$26.4 million.

2.4.3 Consideration Shares

The Consideration shall be fully satisfied on Completion by way of the allotment and issue of the Consideration Shares in the following manner:

- (a) An aggregate of 126,500,000 Vendor Consideration Shares (being the total number of 132,000,000 Consideration Shares less the 5,500,000 Advisor Shares) will be allotted and issued to the Vendor and/or his nominees upon Completion.

For this purpose, upon Completion:

- (i) An aggregate of 85,000,000 Vendor Consideration Shares (out of a total of 126,500,000 Vendor Consideration Shares) will, at the direction of the Vendor, be issued to Wyandotte Capital Limited, a family trust company (“**Family Trust Company**”) as the Vendor’s nominee. The Family Trust Company is incorporated in the British Virgin Islands as an investment holding company. All of the issued shares in the capital of the Family Trust Company are held by Lion Trust (Singapore) Limited, a Singapore trustee company (“**Family Trustee Company**”) for the benefit of the Lim Family Trust, a Singapore discretionary trust of the Vendor’s family (“**Family Trust**”). The beneficiaries of the Family Trust will be Mr Lim Siau Hing and Mr Lim Vhe Kai.
 - (ii) The balance 41,500,000 Vendor Consideration Shares will be issued directly to the Vendor.
- (b) At the direction of the Vendor, an aggregate of 5,500,000 Advisor Shares will be allotted and issued to the Advisor and/or its nominees upon Completion in payment of fees of S\$1.1 million to the Advisor for the provision of services to the Vendor. Save for this fee of S\$1.1 million, the Advisor is not entitled to any commission. The Advisor is a business advisory firm providing corporate and transaction support such as merger and acquisition, due diligence and risk management services to its clients. The primary role of the Advisor includes introducing the Company to the Vendor, assisting the Vendor in facilitating clear coordination and communication with the parties involved in the Proposed Acquisition, and facilitating the provision of information required by the professional parties involved in the Proposed Acquisition.

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2.4.4 Transaction Costs Shares and Settlement Shares

Upon Completion, and simultaneously with the allotment and issue of the Consideration Shares:

- (a) The Company will allot and issue to the Vendor and/or his nominees the Transaction Costs Shares in full and final settlement of the Transaction Costs. Assuming that the Transaction Costs are S\$2.0 million, a total of 10,000,000 Transaction Costs Shares will be issued. The final amount of the Transaction Costs is subject to adjustment upon Completion. See further Section 2.8 entitled “Transaction Costs” of this Circular on the Transaction Costs and Transaction Costs Shares.
- (b) The Company will allot and issue to Bin Tai the Settlement Shares, being 24,000,000 Consolidated Shares, in full and final settlement of the Amount Owed. See further Section 2.9 entitled “Amount Owed” of this Circular on the Amount Owed.

The SIC has ruled that the allotment and issue of the Settlement Shares to Bin Tai does not constitute a special deal for the purposes of Rule 10 of the Code.

2.5 **Conditions**

2.5.1 Conditions

The exercise of the Call Option or Put Option (as the case may be) shall be subject to the satisfaction of the following conditions precedent (“**Conditions**”) on or prior to the expiry of the Option Period, and the obligations of the Vendor and the Company to proceed to Completion shall be subject to the continuing satisfaction of the Conditions during the period up to and including the Completion Date:

- (a) *Restructuring of the Target.* The completion of the Restructuring Exercise to the satisfaction of the Company, and the Restructuring Exercise being in compliance with applicable laws and the memorandum and articles of association, and/or any other constitutional documents, of the Target Subsidiaries.
- (b) *Consents and Approvals.*
 - (i) The Proposed Acquisition being approved by the SGX-ST and/or the Sponsor and/or any other relevant authorities and where such approval is obtained subject to any conditions, such conditions being reasonably acceptable to the Company and Vendor.
 - (ii) The approval by the SGX-ST for the listing and quotation of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares on Catalyst.
 - (iii) A waiver being obtained from the SIC of the obligation by the Vendor and the Family Trust Company to make a mandatory general offer under the Code for all the Shares in issue not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and

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their concert parties as a result of the allotment and issue of the Consideration Shares to the Vendor and the Family Trust Company (and/or their concert parties, if any) pursuant to the Proposed Acquisition, subject to any conditions that the SIC may impose and provided that such conditions are reasonably acceptable to the Vendor and the Family Trust Company ("**Whitewash Waiver**").

- (iv) The Company obtaining Shareholders' approval at the EGM for the Proposed Acquisition and the transactions in connection therewith, including but not limited to approval of the Proposed Whitewash Resolution and the resolutions relating to the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares, and the Share Consolidation, on the basis that the resolutions relating to the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares shall be inter-conditional.
- (v) The approval of all transactions contemplated in connection with the sale of the Option Shares and issue of the Consideration Shares by the regulatory authorities (including, without limitation, the Sponsor, the SGX-ST and the SIC) including the receipt and non-withdrawal of the listing and quotation notice ("**Listing Approval**") of the SGX-ST for, among other things, the listing and quotation of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares on Catalist subject to any conditions attached to the Listing Approval which is required to be fulfilled on or before the Completion having been fulfilled on or before Completion to the satisfaction of the SGX-ST or otherwise waived by the SGX-ST.
- (vi) Where the Listing Approval is obtained subject to any conditions, such conditions being reasonably acceptable to the Vendor and the Company as confirmed by them.
- (vii) Approval being obtained from the Shareholders for any changes to the Board.
- (viii) Approval being obtained from the Shareholders for the share issue mandate in accordance with Rule 806 of the Catalist Rules.
- (ix) Approval being obtained from the Shareholders for the change of name of the Company to "KT International Holdings Limited" or such other name as the Vendor may decide. In this regard, the Vendor has decided on the name "KTMG Limited" instead. Please see Section 7 entitled "Proposed Change of Name" of this Circular.
- (x) If required, approval being obtained from the Shareholders for the compliance placement.

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- (xi) The allotment, issue and subscription of the Consideration Shares not being prohibited by any statute, order, rule, regulation, directive or request promulgated or issued by any legislative, executive or regulatory body or authority of Singapore or elsewhere, which is applicable to the Target and/or the Company.
- (c) *Satisfactory Due Diligence.*
 - (i) The Company being satisfied with the results of the financial, business and legal due diligence on the Target Group to be carried out by the Company and/or its advisers.
 - (ii) The rectification, or the procurement of such rectification, to the reasonable satisfaction of the Company by the Vendor, of all issues or irregularities uncovered by the Company which are material in the context of the Proposed Acquisition during the Company's due diligence.
 - (iii) The Vendor being satisfied with the results of the financial, business and legal due diligence on the Company to be carried out by the Vendor and/or its advisers.
- (d) *No Material Adverse Change.* The Company being satisfied in its reasonable discretion that there has been no material adverse change, or events, acts or omissions likely to lead to such a material adverse change, in the business, assets, prospects, performance, financial position or results of operations of the Target Group from the date of the Option Agreement.
- (e) *Opinion from Independent Financial Adviser.* An opinion from an independent financial adviser of the Company expressing an opinion containing a recommendation by the independent financial adviser to the Recommending Directors to recommend to the Shareholders to vote in support of the Proposed Whitewash Resolution.
- (f) *Independent Valuation.* The Company receiving an independent valuation report on the valuation of the Target Group from a competent and independent valuer, such report to comply with any relevant requirements of the Catalist Rules.
- (g) *Accounts.*
 - (i) Each of the Target Group Companies having sufficient working capital for the next twelve (12) months and operate as a going concern.
 - (ii) All liabilities are accurately disclosed in the last audited accounts of the Target Group Companies and there is no further liability or contingent liability for taxes in respect of the Target Group Companies otherwise than as a result of activities in the ordinary course of its business since the date of the last audited accounts.

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- (h) *Remaining Listed on the Catalist.* The Company shall remain listed on the Catalist, and there shall be no suspension of trading of the Shares (other than any temporary suspension at the request of the Company or any suspension which will be lifted prior to or upon Completion), from the date of the Option Agreement up to and on the date of Completion.
- (i) *In respect of the Proposed Acquisition.*
 - (i) All permits as may be required or appropriate for or in connection with the sale and purchase of the Option Shares or the transactions contemplated in the Option Agreement and to carry on the business of the Target Group Companies from all relevant governmental bodies having been obtained and not withdrawn or revoked by such third parties and where any such permits are obtained subject to any conditions, such conditions being acceptable to the Vendor and the Company.
 - (ii) All necessary or appropriate filings having been made and all appropriate waiting periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated, in each case for or in connection with the sale and purchase of the Option Shares and to carry on the business of the Target Group Companies; and, if such consents and/or conditions are required to be fulfilled before Completion, such conditions being fulfilled before Completion.
 - (iii) Such permits as are necessary for the Target Group's operations having been obtained and remaining valid and subsisting, and each of the Target Group Companies is not in breach of the material terms and conditions of such permits and where the terms of any material contract or permit to which the Target Group Companies are subject contain any restriction or prohibition on the change in the shareholding and/or the boards of directors of the Target Group Companies or include any right to terminate exercisable prior to or as a result of any matter contemplated by the Option Agreement, written approval or consent or written confirmation of the waiver from third parties of such restrictions or prohibition in relation to any such change arising from the transactions under the Option Agreement or of any such right to terminate having been obtained or fulfilled.
- (j) *Receipt of Service Agreements.* The receipt by the Company of service agreements duly executed by the key management team of the Target Group in such form and substance satisfactory to the Company including that they shall remain employed or engaged by the Target and/or the Company for at least three (3) financial years following Completion, such service agreements containing non-compete provisions which are customary for transactions of this nature.

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- (k) *Deed(s) of Waiver by Settlement Shareholders and other Relevant Persons.* The receipt by the Company of deed(s) of waiver duly executed by the Settlement Shareholders and such other persons to whom the Company owed and/or is owing monies comprised in the Amount Owing, reflecting the matters referred to in Section 2.9 entitled "Amount Owing" of this Circular.
- (l) *No Litigation/Disciplinary Proceedings.*
- (i) No civil, criminal, arbitration, administrative or other proceeding is pending or threatened by or against any Target Group Company or a person for whose acts or defaults any Target Group Company may be vicariously liable.
 - (ii) No Target Group Company (or any person for whose acts or defaults any Target Group Company may be vicariously liable) to be involved whether as claimant or defendant or other party in any claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry or arbitration (other than as claimant in the collection of debts arising in the ordinary and usual course of its business) and no such claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry or arbitration is pending or threatened by or against the Target Group Company (or any person for whose acts or defaults the Target may be vicariously liable).
 - (iii) As at the date of the Option Agreement, there were no investigations, disciplinary proceedings against and/or involving the Target Group or other circumstances known to the Vendor which were likely to lead to any claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry or arbitration against the Target Group.
 - (iv) The Vendor and the Company not having received notice of any injunction or other order, directive or notice having the eventual effect of permanently restraining or prohibiting the consummation of the transactions contemplated by the Option Agreement, and there being no action seeking to permanently restrain or prohibit the consummation thereof, which is pending or any such injunction, other order or action which is threatened.
- (m) *No Breach of Warranties.* Each of the representations, warranties, indemnities, covenants and undertakings of the Vendor and the Company remaining true and not misleading in any material respect at Completion, as if repeated at Completion and at all times between the date of the Option Agreement and Completion.

If any of the Conditions is not fulfilled and not waived by mutual consent of the Vendor and the Company by the long stop date of 15 February 2018 (or such further date as the Company and the Vendor may agree in writing), the Option Agreement shall cease and determine and save for any antecedent breach of the Option Agreement, neither the Company nor the Vendor shall have any claim against the other party for damages, compensation or anything whatsoever.

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Pursuant to the SGX-ST granting further extension of time to 31 August 2018 and subsequently to 28 February 2019 for the Company to complete the Proposed Acquisition and meet the requirements for a new listing referred to in Section 2.2 of this Circular, the long stop date referred to above has been extended by mutual agreement of the Company and the Vendor to 28 February 2019 (or such further date as the Company and the Vendor may agree) ("**Long Stop Date**").

2.5.2 Status of fulfilment of Conditions

In respect of the Condition referred to in Section 2.5.1(b)(iii) above, the SIC has on, 19 December 2018, granted the Whitewash Waiver. In respect of the Condition referred to in Section 2.5.1(e) above, the IFA has recommended to the Recommending Directors to recommend that Independent Shareholders vote in support of the Proposed Whitewash Resolution. See further Section 3 entitled "Proposed Whitewash Resolution" of this Circular.

In respect of the Condition referred to in Section 2.5.1(f) above, the Company has already obtained the Business Valuation Report. See further Section 2.3 entitled "Business Valuation Report" of this Circular.

In respect of the Condition referred to in Section 2.5.1(k) above, the Settlement Shareholders have executed an undertaking dated 27 September 2017 in favour of the Company and the Vendor. See further Section 2.9 entitled "Amount Owing" of this Circular.

As at the Latest Practicable Date, all of the Conditions have been fulfilled save for the Conditions referred to in Sections 2.5.1(a), 2.5.1(b)(i), (ii) and (iv) to (ix) above, but Shareholders should note that the Conditions are required to be fulfilled down to the Completion Date.

The Company will make a separate announcement when all the remaining Conditions have been fulfilled, or as and when any of the Conditions has been waived (including the basis for such waiver).

2.6 **Representations, Warranties and Undertakings**

Under the Option Agreement, the Company and the Vendor have given to each other certain customary representations and warranties relating to the Group and the Target Group respectively.

Under the Option Agreement, the Company and the Vendor have given to each other certain undertakings in relation to the conduct of the Group, the Target Group and the Target Business, respectively, during the period between the execution of the Option Agreement and Completion.

Under the Option Agreement, the Vendor is permitted to procure the payment of a dividend of up to a maximum aggregate amount of RM6.0 million by KTM, provided that such payment will not affect its cash flow required for its daily operations and to sustain its business on a going concern basis, and subject to compliance with applicable law and any

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applicable bank or other financing covenants. KTM has since declared a dividend of RM6.0 million in FY2017. See further Section 4.23 entitled “Dividend Policy” of the Target Letter.

Further, under the Option Agreement, the Vendor and/or its affiliates is permitted to purchase from KTM the property located at No. 21, Jalan Rekamas 3, Taman Rekamas III, 86200 Simpang Renggam, Johor, Malaysia on arm’s length basis and at market value. See further Section 10.2.1 entitled “Past Interested Person Transaction” of the Target Letter.

2.7 Voting Undertaking

Under the Option Agreement, the Company has undertaken that it will procure a written undertaking from the Settlement Shareholders that they will vote in favour of the resolutions to approve the Proposed Acquisition and the transactions contemplated in relation thereto, provided that such undertaking will be null and void in the event that the Board does not recommend Independent Shareholders to vote in favour of the Proposed Acquisition and the transactions contemplated in relation thereto.

The Settlement Shareholders have executed in favour of the Company and the Vendor the Settlement Shareholders’ Undertaking, pursuant to which the Settlement Shareholders have undertaken, among other things:

- (a) they will not (and will procure that the other relevant Shareholders will not), as from the date of the Settlement Shareholders’ Undertaking, sell, transfer, dispose of or otherwise deal with, or mortgage, charge or otherwise encumber, or grant any option or other right over or with respect to, any of the 21,839,145 Shares, representing approximately 29.66% of the total number of issued Shares as at the Latest Practicable Date (“**Undertaking Shares**”), held by the Settlement Shareholders, Bintai Kinden Corporation Berhad and Mr Ong Choon Lui or any interest therein or any right attached thereto (or enter into any agreement or commitment to do any of the foregoing) until the earlier of:
 - (i) the termination of the Option Agreement; and
 - (ii) the conclusion of the EGM;
- (b) they will vote, and will procure that the relevant Shareholders will vote, all of the Undertaking Shares at the EGM in favour of all of the resolutions that are being presented at the EGM (except for the Ordinary Resolution 5 relating to the proposed allotment and issue of the Settlement Shares to Bin Tai and any other resolution on which any of them is specifically prohibited by the SGX-ST and/or the SIC from voting.

Bin Tai, Mr Ong and Mr Ong Choon Lui will also abstain from voting on Ordinary Resolution 3 to approve the Proposed Whitewash Resolution.

2.8 Transaction Costs

Under the Option Agreement, the Vendor has agreed to pay on behalf of the Company all actual costs and expenses incurred and to be incurred by the Company, including all stamp duties payable in connection with the transfer of the Option Shares, and all professional fees of the professional advisers appointed by the Company, including the Financial Adviser and Sponsor, the Business Valuer, the IFA, the reporting accountants and the solicitors, acting for the Company to complete the transactions contemplated under the Option Agreement (“**Transaction Costs**”). The estimated Transaction Costs of S\$2.0 million may be subject to adjustment at Completion.

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The Transaction Costs shall, subject to Completion occurring, be deemed to be an interest-free loan from the Vendor to the Company, and the Company will allot and issue the Transaction Costs Shares at the Issue Price to the Vendor and/or his nominees in full and final settlement of the Transaction Costs. The number of Transaction Costs Shares to be allotted and issued will depend on the final amount of the Transaction Costs which will be determined at Completion. In the event that Completion does not occur for any reason whatsoever, the Vendor irrevocably and unconditionally waives repayment by the Company of the Transaction Costs or any part thereof.

2.9 Amount Owing

2.9.1 Amount Owing

As described in Section 2.4.4(b) of this Circular, upon Completion and simultaneously with the allotment and issue of the Consideration Shares, the Company will allot and issue to Bin Tai the Settlement Shares in full and final settlement of the Amount Owing.

The Amount Owing, which has been incurred from August 2011 up to the Latest Practicable Date, comprises primarily:

- (a) amounts owing to its substantial shareholder, Bin Tai, and Mr Ong Choon Lui, an executive Director. Since the Company became a cash company, it has been funded through interest-free advances by Mr Ong and Mr Ong Choon Lui. All of the advances made by Mr Ong and Mr Ong Choon Lui to fund the Company up to 30 June 2017, amounting to around S\$5.17 million have been transferred to Bin Tai. Mr Ong Choon Lui continued to make interest-free advances to fund the Company from 1 July 2017 onwards, and such advances during the period from 1 July 2017 to 31 December 2017 amounted to around S\$0.29 million. The amounts owing from the Company to Bin Tai and Mr Ong Choon Lui arose out of these advances;
- (b) accrual for unpaid directors' fees to non-executive directors for the financial year from 1 April 2016 to 31 March 2017 and the financial year from 1 April 2017 to 31 December 2017; and
- (c) accrual for staff and other expenses of the Company owing primarily to third party service providers in connection with the routine maintenance of the Company.

Based on the Company's audited financial statements for the financial year ended 31 December 2017, the Amount Owing as at 31 December 2017 was around S\$5.88 million.

Since 31 December 2017, Mr Ong Choon Lui has continued to fund, and will continue to fund until Completion, the Company's operating and other expenses. As a result, the amounts owing to Mr Ong Choon Lui, and therefore the Amount Owing, will continue to increase. As at the Latest Practicable Date, the Amount Owing amounted to around S\$6.22 million, out of which an aggregate amount of around S\$5.82 million was owing to Bin Tai and Mr Ong Choon Lui.

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2.9.2 Settlement Shares

Under the Option Agreement, upon Completion, the Company will allot and issue the Settlement Shares, which shall be equivalent to the Amount Owing, subject to the Amount Owing Cap of S\$4.8 million, divided by the Issue Price. As the Amount Owing as at the Latest Practicable Date (being around S\$6.22 million) exceeds the Amount Owing Cap, it is expected that the Company will allot and issue to Bin Tai the Settlement Shares based on the Amount Owing Cap of S\$4.8 million. Upon the allotment and issue of the Settlement Shares to Bin Tai, it shall be the responsibility of the Settlement Shareholders to, and the Settlement Shareholders shall, pay any amount owing to other parties comprised in the Amount Owing (which would include Bin Tai and Mr Ong Choon Lui). In respect of the excess of any Amount Owing over the Amount Owing Cap, the Settlement Shareholders shall irrevocably and unconditionally (a) waive (and shall procure other relevant persons to waive) repayment of such excess amount; and (b) undertake to pay to the Company any sums comprised in the Amount Owing that it is required to pay to any third parties.

The arrangement described above was entered into in order for the liabilities arising from the Amount Owing to be discharged upon Completion, as the Vendor was not prepared to proceed with the Proposed Acquisition with such liabilities still outstanding. The Amount Owing Cap of S\$4.8 million was arrived at based on arms' length negotiations between the Company, the Vendor and Mr Ong.

In connection with the foregoing, the Settlement Shareholders have executed an undertaking dated 3 October 2017 in favour of the Company and the Vendor, pursuant to which the Settlement Shareholders have jointly and severally undertaken that:

- (a) in relation to the Amount Owing, upon the allotment and issue of the Settlement Shares to Bin Tai as described in Section 2.4.4(b), it shall be their responsibility to, and they shall, forthwith pay any amounts owing to other parties comprised in the Amount Owing; and
- (b) in respect of the excess of any Amount Owing over the Amount Owing Cap, they irrevocably and unconditionally (i) waive (and shall procure other relevant persons to waive) repayment of such excess amount; and (ii) undertake to forthwith pay to the Company any sums comprised in the Amount Owing that the Company is required to pay to any third party.

Bin Tai is an Interested Person by virtue of it being a Controlling Shareholder of the Company under Chapter 9 of the Catalist Rules. Accordingly, the allotment and issue of the Settlement Shares by the Company to Bin Tai pursuant to the arrangement described above constitutes an Interested Person Transaction between the Company and Bin Tai. Please see Section 17.1.1 entitled "Allotment and issue of the Settlement Shares" of this Circular for more information in relation to the allotment and issue of the Settlement Shares by the Company to Bin Tai being an Interested Person Transaction.

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2.9.3 Bin Tai Placement

Under Rule 724 of the Catalist Rules, the SGX-ST may suspend trading of the Shares if less than 10.0% of the total number of issued Shares is held in the hands of the public. The SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of the total number of issued Shares in the hands of the public to at least 10.0%.

In addition, the Company is required to comply with Rule 1015(3)(a) read with Rules 406(1)(a) and (c) of the Catalist Rules, under which at least 15.0% of the issued share capital of the Company must be held in the hands of at least 200 public Shareholders.

Based on the Amount Owing (subject to the Amount Owing Cap) and the Issue Price, an aggregate of 24,000,000 Settlement Shares will be allotted and issued to Bin Tai (assuming that the Proposed Share Consolidation has been completed). This will result in Bin Tai having an interest of approximately 14.68%, and Mr Ong having a total interest of approximately 14.76%, of the Enlarged Number of Issued Shares. As Bin Tai and Mr Ong would be Substantial Shareholders of the Company, the Shares in which they have an interest will be excluded from the computation of the Company's public float. As a result, the Company's public float immediately after Completion will be approximately 4.76%, and the Company will not meet the 15.0% public float requirement under Rule 1015(3)(a) read with Rules 406(1)(a) and 406(1)(b) of the Catalist Rules. Please see Section 12.3 entitled "Changes in shareholding structure" of this Circular for further details.

In order to meet the 15.0% public float requirement, Bin Tai has, pursuant to the Settlement Shareholders' Undertaking, agreed to, immediately upon Completion, undertake a placement of part of the Settlement Shares such that Bin Tai and Mr Ong, both of whom would be Substantial Shareholders of the Company, and their respective associates, will collectively have an interest in less than 5.0% of the Enlarged Number of Issued Shares ("**Bin Tai Placement**").

Bin Tai and Mr Ong will cease to be Substantial Shareholders after completion of the Bin Tai Placement, and the remaining Shares (which will constitute less than 5.0% of the Enlarged Number of Issued Shares) in which Bin Tai and Mr Ong have an interest will be included in the computation of the public float. As a result, the public Shareholders' shareholding in the Company would be approximately 19.55% of the Enlarged Number of Issued Shares and the Company will be able to meet the public float requirement. The Company also expects to be able to meet the requirement for at least 200 public Shareholders. Please see Section 12.3 entitled "Changes in shareholding structure" of this Circular for further information.

Bin Tai has engaged UOB Kay Hian Pte. Ltd. as its placement agent to undertake the Bin Tai Placement. The commissions, fees and other costs and expenses of the placement agent will not be borne by the Company or the Enlarged Group, but will be borne by the Settlement Shareholders. The Company will not receive any of the proceeds from the Bin Tai Placement. The Bin Tai Placement will not be placed to any persons set out under Rule 812 of the Catalist Rules. Shareholders should take note that the terms of the Bin Tai Placement, as well as the timing of the Bin Tai Placement, will depend on various factors such as market conditions.

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2.10 Termination

Under the Option Agreement, either party may (but is not obliged to), by notice to the other party given at any time prior to Completion, terminate the Option Agreement if there shall be a material breach by the other party of any term, condition, representation, warranty, covenant, agreement, obligation or undertaking in the Option Agreement and such breach is not capable of remedy, or if capable of remedy is not remedied to the reasonable satisfaction of the non-breaching party within thirty (30) business days after the receipt by the breaching party of a written notice demanding for remedy of such breach.

Further, the Company may (but is not obliged to), by notice to the Vendor given at any time prior to Completion, terminate the Option Agreement if there shall be any material change, or events, acts or omissions which may be likely to lead to a material adverse change, in the business, assets, prospects, shareholdings, performance, financial position or results of operations of the Target Group.

Upon termination, the Option Agreement shall become null and void and shall have no further force or effect save for the Company's and the Vendor's obligations in relation to confidentiality and costs and expenses. In relation to costs and expenses, the Vendor will continue to bear on behalf of the Company all Transaction Costs incurred and to be incurred by the Company, and the Vendor irrevocably and unconditionally waives repayment by the Company of the Transaction Costs or any part thereof.

2.11 Reverse Takeover

For the purposes of Chapter 10 of the Catalist Rules, the relative figures of the Proposed Acquisition computed on the bases set out in Rules 1006(a) to (e) are as follows:

Rule 1006(a)	Net asset value of the asset to be disposed of	Not applicable to an acquisition
	Net asset value of the Group	
	Relative figure	
Rule 1006(b)	Net profits ⁽¹⁾ attributable to the Target Group	S\$4,081,488 ⁽²⁾
	Net profits ⁽¹⁾ attributable to the Group	S\$399,000
	Relative figure	1,022.9%
Rule 1006(c)	Aggregate value of the Consideration given	S\$26,400,000 ⁽³⁾
	Market capitalisation of the Company as at 26 September 2017, being the market day preceding the date of the Option Agreement	S\$3,313,434 ⁽⁴⁾
	Relative figure	796.8% ⁽³⁾
Rule 1006(d)	Number of Shares to be issued by the Company as Consideration for the Proposed Acquisition	2,640,000,000
	Number of Shares in issue as at 29 September 2017, being the date of the announcement of the Proposed Acquisition	73,631,858
	Relative figure	3,585.4% ⁽⁵⁾

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Rule 1006(e)	Aggregate volume or amount of proved and probable reserves to be disposed of	Not applicable ⁽⁶⁾
	Aggregate volume or amount of the Group's proved and probable reserves	
	Relative figure	

Notes:

- (1) Under Rule 1002(3) of the Catalist Rules, "net profits" is defined as profit (or loss) before income tax, minority interests and extraordinary items.
- (2) The net profit attributable to the Target Group for FY2017 is computed based on the average exchange rate of RM1 to S\$0.3212.
- (3) Calculated based on the Consideration of S\$26.4 million as agreed between the Company and the Vendor. Rule 1003(3) of the Catalist Rule requires that, where the consideration is in the form of shares, the value of the consideration is the higher of market value or net asset value represented by such shares. Pursuant to 1003(3) of the Catalist Rules, the aggregate value of the Consideration would be S\$118.8 million and is derived by multiplying the number of Shares in issue by the volume-weighted average price of S\$0.045 per Share based on trades done on the SGX-ST on 26 September 2017, being the last market day immediately preceding the date of the Option Agreement and the size of relative figure under Rule 1006(c) would be 3,584.4%. The net asset value represented by such Shares is not applicable as the Group was in a net liability position of S\$6.34 million as at 30 June 2017.
- (4) The market capitalisation of the Company is derived by multiplying the number of Shares in issue by the volume-weighted average price of S\$0.045 per Share based on trades done on the SGX-ST on 26 September 2017, being the last Market Day immediately preceding the date of the Option Agreement.
- (5) The relative figure under Rule 1006(d) reflects the number of Consideration Shares issued at the pre-consolidation issue price of S\$0.01 as provided for in the Option Agreement, and does not take into account the Proposed Share Consolidation. The Transaction Costs Shares to be issued to the Vendor and/or his nominees and the Settlement Shares to be issued to Bin Tai have been excluded from the computation as they do not form part of the Consideration for the Proposed Acquisition.
- (6) This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil or gas company, but not applicable to an acquisition of assets.

The Vendor and the Family Trust Company will collectively control approximately 80.44% of the Enlarged Number of Issued Shares following Completion and will become Controlling Shareholders of the Company. Upon completion of the Bin Tai Placement, it is expected that each of the Settlement Shareholders (who are Controlling Shareholders as at the Latest Practicable Date) will no longer, based on their individual shareholdings in the Company, be Controlling Shareholders and there will be a change in control of the Company.

As the relative figures under Rules 1006(b), 1006(c) and 1006(d) of the Catalist Rules above exceed 100% and there will be a change in control of the Company, the Proposed Acquisition constitutes a "Reverse Takeover" under Rule 1015(1) of the Catalist Rules. Accordingly, the Proposed Acquisition is conditional upon, among others, the approval of Shareholders at the EGM and the issue of a listing and quotation notice by the SGX-ST.

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3. PROPOSED WHITEWASH RESOLUTION

3.1 Rule 14 of the Code

Under Rule 14 of the Code, unless such obligation is waived by the SIC, where:

- 3.1.1 any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30.0% or more of the voting rights of a company; or
- 3.1.2 any person who, together with persons acting in concert with him, holds not less than 30.0% but not more than 50.0% of the voting rights and such person, or any person acting in concert with him, acquires in any period of six (6) months additional shares carrying more than 1.0% of the voting rights,

such person must extend offers immediately to the holders of any class of share capital of the company which carries votes and in which such person, or persons acting in concert with him, hold shares. In addition to such person, each of the principal members of the group of persons acting in concert with him may, according to the circumstances of the case, have the obligation to extend an offer.

3.2 Requirement for general offer

As at the Latest Practicable Date, the Vendor, the Family Trust Company and their concert parties do not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of the Shares (except pursuant to the Option Agreement).

Upon Completion, an aggregate of 126,500,000 Vendor Consideration Shares and, assuming Transaction Costs of S\$2.0 million, 10,000,000 Transaction Costs Shares, which collectively constitute approximately 80.44% of the Enlarged Number of Issued Shares, will be allotted and issued to the Family Trust Company and the Vendor in satisfaction of the Consideration and the Transaction Costs borne by the Vendor on behalf of the Company. Please see further Section 12.3 entitled "Changes in shareholding structure" of this Circular.

Accordingly, the Vendor and the Family Trust Company will, under Rule 14 of the Code, be required to make a mandatory offer for all the remaining issued Shares not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties arising from the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares, unless the obligation is waived by the SIC.

Under the Option Agreement, the Proposed Acquisition is conditional upon, among other things, the SIC granting to the Vendor and the Family Trust Company the Whitewash Waiver and the approval of Independent Shareholders of the Proposed Whitewash Resolution.

3.3 Whitewash Waiver

The SIC had, on 19 December 2018, waived the requirement for the Vendor and the Family Trust Company to make a mandatory general offer for the Company under Rule 14 of the

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Code following the acquisition of the Vendor Consideration Shares and the Transaction Costs Shares pursuant to the Proposed Acquisition, subject to the following conditions:

- 3.3.1 a majority of holders of voting rights of the Company approve at the EGM, before the issue of the Vendor Consideration Shares and the Transaction Costs Shares, the Proposed Whitewash Resolution by way of poll to waive their rights to receive a general offer from the Vendor and the Family Trust Company;
- 3.3.2 the Proposed Whitewash Resolution is separate from other resolutions;
- 3.3.3 the Vendor, the Family Trust Company, parties acting in concert with them and parties not independent of the Proposed Acquisition (including, for this purpose, Mr Ong and his concert parties) abstain from voting on the Proposed Whitewash Resolution;
- 3.3.4 the Vendor, the Family Trust Company and their concert parties did not acquire or are not to acquire any shares in the Company or instruments convertible into and options in respect of shares in the Company (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of new shares in the Company which have been disclosed in this Circular):
 - (a) during the period between the date of the first announcement of the Proposed Acquisition, i.e. 29 September 2017 (“**Initial Announcement Date**”) and the date on which Shareholders’ approval is obtained for the Proposed Whitewash Resolution; and
 - (b) in the six (6) months prior to the Initial Announcement Date, but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Proposed Acquisition;
- 3.3.5 the Company appoints an independent financial adviser to advise the Independent Shareholders on the Proposed Whitewash Resolution;
- 3.3.6 the Company sets out clearly in this Circular to Shareholders:
 - (a) details of the Proposed Acquisition and the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares;
 - (b) the dilution effect to existing holders of voting rights upon the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares;
 - (c) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of shares in the Company held by the Vendor, the Family Trust Company and their concert parties as at the Latest Practicable Date;

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- (d) the number and percentage of voting rights to be acquired by the Vendor, the Family Trust Company and their concert parties as a result of the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares;
 - (e) specific and prominent reference to the fact that the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares will result in the Vendor, the Family Trust Company and their concert parties holding shares carrying over 49% of the voting rights of the Company, and to the fact that the Vendor and the Family Trust Company will be free to acquire further shares without incurring any obligation under Rule 14 to make a general offer; and
 - (f) specific and prominent reference to the fact that Shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to a general offer from the Vendor and the Family Trust Company at the highest price paid by the Vendor, the Family Trust Company and their concert parties for Shares in the past six (6) months preceding the Initial Announcement Date;
- 3.3.7 this Circular by the Company to Shareholders states that the waiver granted by the SIC to the Vendor and the Family Trust Company from the requirement to make a general offer under Rule 14 is subject to the conditions set out in Sections 3.3.1 to 3.3.6 above;
- 3.3.8 the Company obtains the SIC's approval in advance for those parts of this Circular that refer to the Proposed Whitewash Resolution; and
- 3.3.9 to rely on the Proposed Whitewash Resolution, the approval of the Proposed Whitewash Resolution by Independent Shareholders must be obtained within three (3) months of the date of SIC's approval and the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares must be completed within three (3) months of the date of the approval of the Proposed Whitewash Resolution.

None of the Vendor, the Family Trust Company and parties acting in concert with him has traded in the Shares during the period commencing on a date six (6) months prior to the Initial Announcement Date and up to the Latest Practicable Date.

3.4 **Proposed Whitewash Resolution**

Independent Shareholders are requested to vote, by way of a poll, on the Proposed Whitewash Resolution under Ordinary Resolution 3 in the Notice of EGM, waiving their right to receive a general offer from the Vendor and the Family Trust Company for all the remaining Shares in issue not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties under Rule 14 of the Code arising from the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares pursuant to the Proposed Acquisition.

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Shareholders should note that:

- 3.4.1 approval of the Proposed Whitewash Resolution is a condition precedent to Completion. If Independent Shareholders do not vote in favour of the Proposed Whitewash Resolution, the Proposed Acquisition will not be completed;
- 3.4.2 the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares will result in the Vendor, the Family Trust Company and their concert parties holding Shares carrying over 49% of the voting rights of the Company, and the Vendor and the Family Trust Company will be free to acquire further Shares without incurring any obligation under Rule 14 to make a general offer; and
- 3.4.3 by voting in favour of the Proposed Whitewash Resolution, they will be waiving their rights to receive a general offer from the Vendor and the Family Trust Company at the highest price paid by the Vendor, the Family Trust Company and their concert parties for the Shares in the past six (6) months preceding the Initial Announcement Date.

In connection with one of the conditions imposed by the SIC for granting the Whitewash Waiver (as described in Section 3.3.5), Xandar Capital Pte. Ltd. has been appointed as the IFA to the Recommending Directors to advise on the Proposed Whitewash Resolution. A summary of the advice of the IFA is set out in Section 23 entitled “Advice of the IFA” of this Circular. A copy of the IFA Letter in relation to the Proposed Whitewash Resolution is set out in **Appendix B** entitled “Letter from the IFA to the Recommending Directors in respect of the Proposed Whitewash Resolution” of this Circular.

4. PROPOSED SHARE CONSOLIDATION

4.1 Rationale for the Proposed Share Consolidation

Under Rule 1015(3)(c) of the Catalist Rules, in relation to a reverse takeover, the issue price of each Share after adjusting for any share consolidation must not be lower than S\$0.20.

The Option Agreement provides for the Consideration Shares to be allotted and issued at the pre-consolidation issue price of S\$0.01 for each Consideration Share in satisfaction of the Consideration.

To comply with the minimum issue price requirement under Rule 1015(3)(c), the Company proposes to undertake the Proposed Share Consolidation prior to Completion. Pursuant to the Proposed Share Consolidation, the Company will consolidate every twenty (20) Shares, as at the Consolidation Books Closure Date, into one (1) Consolidated Share. Accordingly, after the Consolidation Books Closure Date, every twenty (20) Shares will be consolidated to constitute one (1) Consolidated Share.

Shareholders should note that the number of Consolidated Shares which they will be entitled to pursuant to the Proposed Share Consolidation, based on their shareholdings as at the Consolidation Books Closure Date, will be rounded down to

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the nearest whole Consolidated Share and any fractions of Consolidated Shares arising from the Proposed Share Consolidation will be disregarded.

Fractions of a Consolidated Share arising from the Proposed Share Consolidation may be dealt with in such manner as the Directors may, in their absolute discretion, deem fit in the interests of the Company. This may include aggregating and selling the same and retaining the net proceeds for the benefit of the Company and/or purchasing of any or all of the fractional Consolidated Shares and retaining the net proceeds of the share purchase for the benefit of the Company.

For illustrative purposes, if a Shareholder holds 2,000 Shares as at the Consolidation Books Closure Date, following the Proposed Share Consolidation and rounding down to the nearest whole Consolidated Share and disregarding any fractions of Consolidated Shares arising from the Proposed Share Consolidation, the Shareholder will be entitled to 100 Consolidated Shares.

Each Consolidated Share will rank *pari passu* with each other, and will be traded in board lots of 100 Consolidated Shares. Immediately after the Proposed Share Consolidation but prior to Completion and to the Proposed Capital Reduction, the Company will have an issued and paid-up share capital of S\$36,827,431 comprising 3,681,592 Consolidated Shares, fractional Consolidated Shares being disregarded.

Upon Completion but prior to the Proposed Capital Reduction, and assuming the allotment and issue of 10,000,000 Transaction Costs Shares, the Company will have an issued and paid-up share capital of S\$48,992,228 comprising 169,681,592 Consolidated Shares.

The Proposed Share Consolidation will not involve the diminution of any liability in respect of unpaid capital or the payment to any Shareholder of any paid-up capital of the Company, and has no effect on the equity of the Company.

Shareholders are not required to make any payment to the Company in respect of the Proposed Share Consolidation. Subject to approval of Shareholders being obtained for the Proposed Share Consolidation at the EGM, the number of Consolidated Shares held by Shareholders arising from the Proposed Share Consolidation will be ascertained on the Consolidation Books Closure Date.

Shareholders who hold less than twenty (20) existing Shares as at the Books Closure Date will not be entitled to any Consolidated Shares and will no longer be Shareholders upon completion of the Proposed Share Consolidation. Such Shareholders who wish to remain as Shareholders upon completion of the Proposed Share Consolidation are advised to purchase additional existing Shares so as to increase the number of existing Shares held to a multiple of twenty (20) existing Shares prior to the Books Closure Date.

Shareholders should note that the Proposed Share Consolidation may not result in the desired outcome in terms of the price of the Shares post-consolidation, that is, the price of the Shares may not increase in proportion to the share consolidation ratio following the completion of the Proposed Share Consolidation.

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4.2 Conditions precedent to the Proposed Share Consolidation

Shareholders should note that the implementation of the Proposed Share Consolidation is subject to Shareholders' approval for the Proposed Share Consolidation at the EGM. Shareholders should also note that under the Option Agreement, the approval of Shareholders for the Proposed Share Consolidation is one of the Conditions. If Shareholders' approval for the Proposed Share Consolidation is not obtained, the Proposed Acquisition will not proceed to Completion. Shareholders should refer to Section 29 entitled "Inter-conditionality" of this Circular on the inter-conditionality of the resolutions contained in this Circular.

Subject to Shareholders' approval being obtained for, among other things, the Proposed Share Consolidation at the EGM, and the Listing Approval from the SGX-ST for the listing of and quotation for the Consolidated Shares on the Catalist being received, Shareholders' holdings of the Consolidated Shares arising from the Proposed Share Consolidation will be determined on the Consolidation Books Closure Date. The Company will in due course make an announcement to notify Shareholders of the Consolidation Books Closure Date and the Effective Trading Date.

4.3 Administrative procedures

4.3.1 Updating of Register of Members and Depository Register

After Shareholders' approval has been obtained for the Proposed Share Consolidation at the EGM, Shareholders' entitlements to the Consolidated Shares will be determined on the Consolidation Books Closure Date, whereupon the Register of Members and the depository register will be updated to reflect the number of Consolidated Shares held by Shareholders based on their shareholdings in the Company as at the Consolidation Books Closure Date.

4.3.2 Deposit of Old Share Certificates with CDP

Shareholders who hold old physical share certificates for the existing Shares ("**Old Share Certificates**") in their own names and who wish to deposit the same with CDP and have their Consolidated Shares credited to their Securities Accounts maintained with CDP must deposit their Old Share Certificates, together with the duly executed instruments of transfer in favour of CDP, no later than twelve (12) Market Days before the Consolidation Books Closure Date.

After the Consolidation Books Closure Date, CDP will only accept for deposit share certificates for Consolidated Shares ("**New Share Certificates**"). Shareholders who wish to deposit their New Share Certificates with CDP after the Consolidation Books Closure Date must first deliver their Old Share Certificates to the Share Registrar and Share Transfer Agent, Tricor Barbinder Share Registration Services, at 80 Robinson Road #11-02 Singapore 068898, for cancellation and issue of New Share Certificates in replacement thereof as described below.

4.3.3 Issue of New Share Certificates

Shareholders who have deposited their Old Share Certificates with CDP at least twelve (12) Market Days prior to the Consolidation Books Closure Date need not

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take any action. The Company will arrange with CDP to facilitate the exchange of New Share Certificates pursuant to the Proposed Share Consolidation.

Shareholders who have not deposited their Old Share Certificates as aforesaid or who do not wish to deposit their Old Share Certificates with CDP are advised to forward all their Old Share Certificates to the Share Registrar and Share Transfer Agent, Tricor Barbinder Share Registration Services, at 80 Robinson Road #11-02 Singapore 068898, as soon as possible after they have been notified of the Consolidation Books Closure Date and no later than five (5) Market Days after the Consolidation Books Closure Date for cancellation and exchange for New Share Certificates. New Share Certificates will be sent by ordinary mail to the registered addresses of the Shareholders at their own risk within ten (10) Market Days from the Consolidation Books Closure Date or the date of receipt of the Old Share Certificates, whichever is the later.

Shareholders are to deliver their respective Old Share Certificates to the Share Registrar and Share Transfer Agent or CDP only after the announcement of the Consolidation Books Closure Date by the Company. No receipt will be issued by the Share Registrar and Share Transfer Agent for the receipt of the Old Share Certificates tendered.

Shareholders should note that New Share Certificates will not be issued to Shareholders unless their Old Share Certificates have been tendered to the Share Registrar and Share Transfer Agent for cancellation.

Please notify the Share Registrar and Share Transfer Agent, Tricor Barbinder Share Registration Services, at 80 Robinson Road #11-02 Singapore 068898, if you have lost any of your Old Share Certificates or if there is any change in your address from that reflected in the Register of Members of the Company.

4.3.4 Share certificates not valid for settlement of trades on Catalist

Shareholders who hold physical share certificates are reminded that their Old Share Certificates will not be valid for settlement of trading in the new Consolidated Shares on the Catalist (as the Company is under a book-entry (scripless) settlement system) but will continue to be accepted for cancellation and issue of New Share Certificates in replacement thereof for an indefinite period by the Share Registrar and Share Transfer Agent. Notwithstanding the above, the New Share Certificates will not be valid for delivery for trades done on the Catalist although they will continue to be *prima facie* evidence of legal title.

4.3.5 Trading arrangements for the Consolidated Shares and for odd lots

Subject to Shareholders' approval for the Proposed Share Consolidation being obtained at the EGM, with effect from 9.00 a.m. on the Effective Trading Date, trading in the Consolidated Shares will be in board lots of 100 Consolidated Shares.

Accordingly, twenty (20) existing Shares as at 5.00 p.m. on the Market Day immediately preceding the Effective Trading Date will represent one (1) Consolidated Share with effect from 9.00 a.m. on the Effective Trading Date.

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Trading in the existing Shares will cease after 5.00 p.m. on the Market Day immediately preceding the Effective Trading Date.

The Shares are currently traded in board lots of 100 Shares in the ready market. Following the Proposed Share Consolidation, the Securities Accounts of depositors may be credited with odd lots of Consolidated Shares (i.e. lots other than board lots of 100 Consolidated Shares). The market for trading of such odd lots of Consolidated Shares may be illiquid. Depositors who receive odd lots of Consolidated Shares pursuant to the Proposed Share Consolidation and who wish to trade such odd lots of Consolidated Shares on the SGX-ST should note that odd lots of Consolidated Shares can be traded on the unit share market which, following the Proposed Share Consolidation, would allow trading in odd lots with a minimum size of one (1) Consolidated Share. The SGX-ST's unit share market will enable trading in odd lots in any quantity less than one (1) board lot of the underlying Consolidated Shares in the ready market.

4.4 Consolidation Books Closure Date and Effective Trading Date

The announcement on the Consolidation Books Closure Date and the Effective Trading Date in respect of the Proposed Share Consolidation will be made by the Company in due course, after consultation with the Financial Adviser and Sponsor for compliance with the relevant Catalist Rules. Please refer to the Section entitled "Indicative Timetable" of this Circular for further details.

5. PROPOSED CAPITAL REDUCTION

5.1 Introduction

Based on the audited financial statements of the Company for the financial period from 1 April 2017 to 31 December 2017, as at 31 December 2017, the Company had accumulated losses of S\$42,663,250. As at 30 September 2018, based on the Company's unaudited financial results announcement for the third quarter and nine (9) months ended 30 September 2018 on SGXNET, the Company's accumulated losses have increased to S\$42,947,237 ("**Accumulated Losses**").

As at the Latest Practicable Date, the issued and paid-up share capital of the Company was S\$36,827,431.

The Company is proposing to undertake the Proposed Capital Reduction to write-off part of the Accumulated Losses, as described below.

5.2 Details of the Proposed Capital Reduction

The Directors propose to carry out the Proposed Capital Reduction pursuant to section 78A read with section 78C of the Companies Act.

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The Proposed Capital Reduction will be effected in the following manner:

- 5.2.1 by reducing the share capital of the Company from S\$36,827,431 to S\$1,000 by the cancellation of the share capital of the Company that has been lost or is unrepresented by available assets to the extent of S\$36,826,431; and
- 5.2.2 thereafter by applying an amount equal to S\$36,826,431, being the credit arising from the cancellation of the share capital of the Company, towards the writing-off of part of the Accumulated Losses.

Pursuant to section 78C(2) of the Companies Act, the Company is not required to meet the solvency requirements under section 78C(1)(b) of the Companies Act as the Proposed Capital Reduction does not involve a reduction, payment or distribution of cash or other assets by the Company, or a release of any liability owed to the Company.

5.3 Resultant Effect on the Share Capital of the Company

For illustration purposes, assuming the Proposed Capital Reduction took place on 30 September 2018, the issued and paid-up share capital of the Company would be reduced from S\$36,827,431 to S\$1,000 and the Accumulated Losses would be reduced from S\$42,947,237 to S\$6,120,806.

The Proposed Capital Reduction will not involve any change to the total number of issued Shares in the Company held by Shareholders immediately after the Proposed Capital Reduction, nor will the Proposed Capital Reduction involve the payment to any Shareholders of any paid-up share capital of the Company.

5.4 Rationale for the Proposed Capital Reduction

As at the Latest Practicable Date, the amount of the Accumulated Losses exceeds the amount of the issued share capital of the Company. The purpose of the Proposed Capital Reduction is to write off part of the Accumulated Losses, so that the Accumulated Losses (as at 30 September 2018) will be reduced from S\$42,947,237 to S\$6,120,806, with a view to restructuring the finances of the Company. The Accumulated Losses were built up during the period prior to the Proposed Acquisition. The Proposed Capital Reduction serves to rationalise the balance sheet of the Company to reflect more accurately the value of its underlying assets, and thus the financial position of the Company.

In addition, the Proposed Capital Reduction will facilitate future equity-related fund raising exercises to recapitalise and strengthen the balance sheet of the Company. The Company would be in a better position to retain profits and enhance its ability to pay future dividends, if appropriate, if part of the Accumulated Losses are written off. After Completion, the New Directors will take into consideration the present and future funding needs of the Enlarged Group before declaring any dividends.

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5.5 Conditions for the Proposed Capital Reduction

The Proposed Capital Reduction is subject to, among other things, the following:

- 5.5.1 approval by the Shareholders of Special Resolution 1 for the Proposed Capital Reduction at the EGM;
- 5.5.2 compliance with the relevant publicity requirements as prescribed in the Companies Act;
- 5.5.3 no application having been made for the cancellation of the Shareholders' resolution approving the Proposed Capital Reduction by any creditor of the Company within the timeframe prescribed in the Companies Act, or if such application was made, the withdrawal or dismissal thereof by the judicial authorities; and
- 5.5.4 the Company, after the end of six (6) weeks (but before the end of eight (8) weeks) beginning with the date on which the Proposed Capital Reduction is approved by the Shareholders, lodging with the Registrar:
 - (a) a statement made by the Directors confirming that the requirements under section 78C(1)(c) and section 78C(3) (if applicable) have been complied with, and that no application for cancellation of the resolution has been made. In this regard, pursuant to section 78C(2), it will not be necessary for the Company to meet the solvency requirements set out in section 78C(3) as the Proposed Capital Reduction does not involve a reduction, payment or distribution of cash or other assets by the Company, or a release of any liability owed to the Company; and
 - (b) a notice containing information in relation to the Proposed Capital Reduction.

The Company will make an immediate announcement on SGXNET to update Shareholders if any of the conditions for the Proposed Capital Reduction as set out in this Section is not met.

5.6 Creditor Objections

In the event that during the six (6) weeks commencing with the date on which the Proposed Capital Reduction was approved by the Shareholders ("**Creditor Objection Period**"), one or more applications for the cancellation of the Shareholders' resolution approving the Proposed Capital Reduction has been made under section 78D(2) of the Companies Act, for the Proposed Capital Reduction to take effect, the following conditions must be satisfied:

- 5.6.1 the Company must give to the Registrar notice of the application(s) for the cancellation of the Shareholders' resolution approving the Proposed Capital Reduction as soon as possible after such application(s) have been served on the Company by the creditor(s);
- 5.6.2 the proceedings in relation to each application for the cancellation of the Shareholders' resolution approving the Proposed Capital Reduction must be

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brought to an end by either the dismissal of the application under section 78F of the Companies Act or without determination (for example, because the application has been withdrawn); and

5.6.3 the Company must, within fifteen (15) days beginning with the date on which the last such proceedings were brought to an end in accordance with paragraph 5.6.2 above, lodge with the Registrar:

- (a) a statement made by the Directors confirming that the requirements under section 78C(1)(c), section 78C(3) (which is not applicable, as explained in Section 5.5.4 above) and section 78D(4) of the Companies Act have been complied with, and that the proceedings in relation to each such application have been brought to an end by the dismissal of the application or without determination;
- (b) a notice containing information in relation to the Proposed Capital Reduction; and
- (c) in relation to each such application which has been dismissed by the Court, a copy of the order of the Court dismissing the application.

5.7 Effective Date of the Proposed Capital Reduction

If no application is received from any creditor of the Company for the cancellation of the resolution approving the Proposed Capital Reduction within the Creditor Objection Period, the Company will after the expiry of the Creditor Objection Period and before the end of eight (8) weeks beginning with the date of the resolution approving the Proposed Capital Reduction, lodge the relevant documents required under sections 78E(2)(i) and (ii) of the Companies Act with the Registrar, upon which the Proposed Capital Reduction will take effect.

The Company will thereafter announce and notify Shareholders of the effective date of the Proposed Capital Reduction through a SGXNET announcement to be posted on the SGX-ST website at <http://www.sgx.com>.

Please see Section 10 entitled “Financial Effects of the Proposed Transactions” of this Circular on the financial effects of the Proposed Capital Reduction.

6. PROPOSED APPOINTMENT OF THE NEW DIRECTORS

On Completion, Tan Sri Dato’ Kamaruzzaman Bin Shariff, Mr Ong, Mr Ong Choon Lui and Mr Wong Heang Fine will step down as Directors of the Board. Mr Goh Yeow Tin and Mr Yap Boh Pin, who are existing Directors, are proposed to be re-elected to the New Board upon Completion. Mr Lim Siau Hing, Mr Lim Vhe Kai and Mr Koh Boon Huat are proposed to be appointed to the New Board after Completion. Upon Completion, the New Directors will comprise the following:

- (a) Mr Lim Siau Hing (*Executive Chairman*);
- (b) Mr Lim Vhe Kai (*Executive Director and CEO*);

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- (c) Mr Goh Yeow Tin (*Lead Non-Executive and Independent Director*);
- (d) Mr Yap Boh Pin (*Non-Executive and Independent Director*); and
- (e) Mr Koh Boon Huat (*Non-Executive and Independent Director*).

For further information on each of the New Directors and details on the New Audit Committee, the New Nominating Committee and the New Remuneration Committee of the Enlarged Group, please see Section 13 entitled “New Directors, New Executive Officers and Related Employees” and Section 14 entitled “Corporate Governance” of this Circular.

7. PROPOSED CHANGE OF NAME

In view of the Proposed Transactions, the Company is seeking the approval of Shareholders to change the name of the Company from “Lereno Bio-Chem Ltd.” to “KTMG Limited” as the proposed change of name will more appropriately reflect the new business of the Company upon Completion. Accordingly, the Board recommends that the name of the Company be changed as proposed in this Circular.

The name “KTMG Limited” has been reserved with ACRA until 13 February 2019.

In connection with the proposed change of name of the Company, the Company intends to adopt the corporate logo as shown below:



Subject to the resolution for the proposed change of name of the Company being carried as a special resolution at the EGM, the Company will, on Completion, lodge the requisite notification with ACRA relating to its change of name. The Company shall adopt “KTMG Limited” as its new name with effect from the registration of such name with ACRA, and the name “KTMG Limited” shall replace all references to “Lereno Bio-Chem Ltd.” wherever it appears in the Existing Constitution.

The Company will issue an announcement to notify Shareholders of the coming into effect of the Company’s new name. Shareholders should note that the change of the Company’s name does not affect the legal status of the Company. Shareholders should also note that notwithstanding the change of the Company’s name, the Company will not recall existing share certificates which will continue to be *prima facie* evidence of legal title. No action will be required on the part of the Shareholders.

8. PROPOSED GENERAL SHARE ISSUE MANDATE

At the AGM of the Company held on 23 April 2018, the Shareholders had granted to the Directors a general mandate to allot and issue Shares subject to the provisions of Rule 806 of the Catalist Rules. The aggregate number of Shares which may be issued under such

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general mandate was determined based on the total number of issued Shares at the time of the passing of such general mandate, that is, 23 April 2018.

The Company is proposing to seek Shareholders' approval at the EGM for the grant of the Proposed General Share Issue Mandate, under which the aggregate number of Shares which may be issued is to be determined based on the total number of Consolidated Shares after the completion of the Proposed Share Consolidation and the Proposed Acquisition. This is in addition to the authorisation being sought for the proposed issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares referred to in Sections 2.4.3 and 2.4.4 of this Circular.

Specifically, approval from the Shareholders will be sought for, amongst others, authority to be granted pursuant to Article 12(2) of the Existing Constitution (after the Proposed Amendments to the Existing Constitution) and Rule 806 of the Catalist Rules to the New Directors to:

- (a) (i) allot and issue new shares in the capital of the Company whether by way of rights issue, bonus issue or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other Instruments convertible into shares,

at any time and upon such terms and conditions, and for such purposes and to such persons as the New Directors shall in their absolute discretion deem fit; and

- (b) (notwithstanding that the authority conferred by the ordinary resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the ordinary resolution was in force,

provided that:

- (i) the aggregate number of new shares to be issued pursuant to such authority (including shares to be issued in pursuance of Instruments made or granted pursuant to such authority and any adjustments effected under any relevant Instrument) shall not exceed 100.0% of the Enlarged Number of Issued Shares and that the aggregate number of shares to be issued other than on a pro-rata basis to the then-existing Shareholders shall not exceed 50.0% of the Enlarged Number of Issued Shares; and
- (ii) unless revoked or varied by the Shareholders in general meeting, such authority shall continue in full force until the conclusion of the next AGM or the date by which the next AGM is required by law to be held, whichever is earlier.

The Proposed General Share Issue Mandate will take effect from the passing of Ordinary Resolution 12 and shall continue in force until the next AGM, unless prior thereto such authority is revoked or varied by the Company in a general meeting or the Proposed General Share Issue Mandate is carried out to the full extent mandated.

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9. PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

9.1 Introduction

Under Rule 406(8) of the Catalist Rules, the constitution of an issuer is required to meet the requirements in Appendix 4C of the Catalist Rules. In addition, Rule 730 of the Catalist Rules provides that if an issuer amends its articles or other constituent documents, they must be made consistent with all the listing rules prevailing at the time of amendment.

In view of the foregoing, the Company is proposing to amend certain articles in its Existing Constitution to comply with the requirements of Rule 406(8) and Appendix 4C, and Rule 730, of the Catalist Rules, as well as to take into account the provisions of the Personal Data Protection Act relating to the collection, use and disclosure of personal data.

The Company will propose further amendments to the Existing Constitution for consistency with certain recent amendments to the Companies Act at a subsequent time.

9.2 Summary of the Principal Amendments

A summary of the principal amendments to certain articles in the Existing Constitution is set out below. This summary should be read with the comparison between the existing articles and the amendments proposed to be made thereto, with all additions underlined and any deletions marked with a strikethrough, as set out in **Appendix L** entitled “Proposed Amendments to the Existing Constitution” of this Circular.

9.2.1 Proposed amendments to Article 5

It is proposed that Article 5 of the Existing Constitution be amended in the manner described below:

- (a) Any allotment of shares or grant of options over or otherwise disposal of the same shall be subject to the Companies Act and the Catalist Rules.
- (b) It is proposed that a new proviso be inserted to provide that the rights attaching to shares of a class other than ordinary shares must be expressed in the Existing Constitution. This is to bring Article 5 in line with paragraph 1(b) of Appendix 4C of the Catalist Rules.
- (c) Article 5 currently provides that the total value of issued preference shares shall not at any time exceed the total value of issued ordinary shares of the Company. It is proposed that Article 5 be amended to provide that the total number (rather than value) of issued preference shares shall not exceed the total number (rather than value) of issued ordinary shares of the Company. This is to bring Article 5 in line with paragraph 1(a) of Appendix 4C of the Catalist Rules.

9.2.2 Proposed amendments to Article 12(2)

Article 12(2) currently provides that the Company may seek from Shareholders a general share issue mandate, provided that the aggregate number of shares to be

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issued does not exceed 50% of the Company's existing issued share capital, of which the aggregate number of shares issued other than on a pro rata basis to existing shareholders does not exceed 20% of the Company's existing issued share capital.

Rule 806(2) of the Catalist Rules currently permits a listed issuer to seek from shareholders a general share issue mandate subject to:

- (a) if the mandate is approved by ordinary resolution, a limit of not more than 100% of the total number of issued shares (excluding treasury shares and subsidiary holdings), of which the aggregate number of shares issued other than on a pro rata basis to existing shareholders must be not more than 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings); and
- (b) if the mandate is approved by special resolution, a limit of not more than 100% of the total number of issued shares (excluding treasury shares and subsidiary holdings), whether or not on a pro rata basis.

It is proposed that Article 12(2) be amended such that the limit on the number of shares will be in accordance with Rule 806(2) of the Catalist Rules.

9.2.3 Proposed amendments to Article 13

The proviso at the end of Article 13 provides that the Company shall not be bound to register more than three (3) persons as the holders of any share except in the case of executors or administrators of the estate of a deceased member. It is proposed that the proviso be amended to be in line with paragraph 4(d) of Appendix 4C of the Catalist Rules, by specifically also including trustees of the estate of a deceased member in the exception to the proviso.

9.2.4 Proposed amendments to Article 15

It is proposed that Article 15, which relates to the Company's lien on shares and dividends, be amended to be in line with paragraph 3(a) of Appendix 4C of the Catalist Rules, so that the Company's lien on shares and dividends shall be restricted to unpaid calls and instalments upon the specific shares in respect of which such monies are due and unpaid and to such monies as the Company may be called upon by law to pay in respect of the shares of the member or deceased member.

9.2.5 Proposed amendments to Articles 53 and 54

Articles 53 and 54 relate to general meetings of the Company. It is proposed that Articles 53 and 54 be amended to provide that all general meetings of the Company shall be held in Singapore. This is to bring Articles 53 and 54 in line with Rule 730A(1) and Practice Note 7E of the Catalist Rules.

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9.2.6 Proposed amendments to Article 56

Article 56 deals with notices of general meetings that are given to Shareholders. It is proposed that Article 56 be amended to clarify that the notice period of at least twenty-one (21) days for any meeting to pass a special resolution, and at least fourteen (14) days for any other meeting, excludes the date on which the notice is served or deemed to be served and the date of the meeting for which the notice is given. This is to bring Article 56 in line with paragraph 7(a) of Appendix 4C of the Catalyst Rules.

9.2.7 New Article 62A and proposed amendments to Articles 63 and 64

It is proposed that a new Article 62A be inserted immediately after the existing Article 62 to provide that all resolutions at general meetings shall be voted by poll. Consequential changes have been made to Articles 63 and 64. These changes are to bring Articles 62A, 63 and 64 in line with Rule 730A(2) of the Catalyst Rules.

Article 64, which relates to the Chairman's direction as to a poll, has also been updated to provide that the Chairman shall appoint at least one (1) scrutineer for each general meeting, who shall be independent of the persons undertaking the polling process. This update is to bring Article 64 in line with Rule 730A(3) of the Catalyst Rules.

9.2.8 Proposed amendments to Article 66

Article 66 of the Existing Constitution, which relates to the rights of and restrictions on a member to vote at any general meeting, has been amended to include the condition that all calls due to the Company must have been paid before a member present in person or by proxy is entitled to vote. This is to bring Article 66 in line with paragraph 8(a) of Appendix 4C of the Catalyst Rules.

9.2.9 New Article 71(6)

Article 71 relates to the appointment of proxies for general meetings of the Company. It is proposed that a new Article 71(6) be inserted immediately after the existing Article 71(5) to clarify that:

- (a) a member who has deposited an instrument appointing any number of proxies to vote on his behalf at a general meeting shall not be precluded from attending and voting in person at that general meeting; and
- (b) any such appointment of all the proxies concerned shall be deemed to be revoked upon the attendance of the member appointing the proxy or proxies at the relevant general meeting.

This is to bring Article 71 in line with paragraph 3.3 of Practice Note 7E of the Catalyst Rules which provides that if a member submits a proxy form and subsequently attends the meeting in person and votes, the appointment of the proxy should be revoked.

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9.2.10 New Article 76A

It is proposed that a new Article 76A be inserted immediately after Article 76 to provide that:

- (a) the Board shall have at least two (2) non-executive directors who are independent and free of any material business or financial connection with the Company;
- (b) Independent Directors must comprise at least one-third of the Board; and
- (c) in the event of any retirement or resignation which renders the Company unable to meet any of the foregoing requirements, the Company shall endeavour to fill the vacancy within two (2) months, but in any case not later than three (3) months.

This is to bring the Constitution in line with the revised Rule 406(3)(c) of the Catalist Rules which will come into effect on 1 January 2022.

9.2.11 Proposed amendments to Article 79

Article 79 currently provides, among other things, that any Director may appoint any person not disapproved by a majority of the other Directors for the time being to be an alternate Director. It is proposed that Article 79 be amended to provide that any Director may appoint any person who is approved by a majority of the other Directors (rather than not disapproved by the other Directors) to be alternate Director. This is to bring Article 79 in line with paragraph 9(k) of Appendix 4C of the Catalist Rules.

9.2.12 Proposed amendments to Article 84

Article 84 currently provides that a Director who is appointed the managing director shall not, while holding that office, be subject to retirement by rotation and he shall not be taken into account in determining the rotation of retirement of Directors or the number of Directors to retire.

Under the new Rule 720(4) of the Catalist Rules, which will apply as from 1 January 2019, all Directors are required to submit themselves for re-nomination and re-appointment at least once every three (3) years. It is proposed that Article 84 be amended to provide that a Director who is appointed the managing director would also be subject to retirement by rotation together with the other Directors.

9.2.13 Proposed amendments to Article 93

Article 93 sets out the grounds on which the office of Director shall become vacant. It is proposed that Article 93 be amended to provide for an additional ground on which the office of Director shall become vacant, i.e. if the Director becomes disqualified from acting as a director in any jurisdiction for reasons other than on technical grounds. This is to bring Article 93 in line with paragraph 9(m) of Appendix 4C of the Catalist Rules.

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9.2.14 Proposed amendments to Article 96

Article 96 of the Existing Constitution currently provides that a Director appointed to fill a vacancy must retire from office at the next following general meeting but shall be eligible for re-election. It is proposed that Article 96 be amended to provide that such a Director must retire from office at the next following annual general meeting (and not just any general meeting) but shall be eligible for re-election. This is for clarification purposes and to bring Article 96 in line with paragraph 9(b) of Appendix 4C of the Catalist Rules.

9.2.15 Proposed amendments to Article 119

It is proposed that Article 119 of the Existing Constitution be amended to provide that the Company shall issue its annual report to its Shareholders at least fourteen (14) days before the date of the AGM. This is to bring Article 119 in line with Rule 707(2) of the Catalist Rules.

9.2.16 New Articles 128 and 129

In general, under the Personal Data Protection Act, an organisation can only collect, use or disclose the personal data of an individual with the individual's consent, and for a reasonable purpose which the organisation has made known to the individual. The new Article 128 sets out, among other things, the purposes for which the Company and/or its agents and service providers can collect, use and disclose personal data of Shareholders and their appointed proxies or representatives.

Article 129 provides that a Shareholder who appoints a proxy and/or a representative for any meeting of the Company is deemed to have:

- (a) warranted that, where such Shareholder discloses the personal data of such proxy or representative to the Company (or its agents or service providers), such Shareholder has obtained the prior consent of such proxy or representative for the purposes specified in Article 128; and
- (b) agreed to indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of or in connection with such Shareholder's breach of warranty.

9.3 **Summary of principal amendments and the New Constitution of the Company**

The summary of principal amendments of the Existing Constitution is set out in **Appendix L** entitled "Proposed Amendments to the Existing Constitution" to this Circular. The proposed New Constitution is set out in **Appendix M** entitled "New Constitution" to this Circular. The Proposed Amendments to the Existing Constitution is subject to Shareholders' approval.

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10. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

10.1 Pro forma financial effects

The pro forma financial effects of the Proposed Transactions on the share capital, NTA, earnings and gearing of the Enlarged Group set out in this Section 10 have been prepared based on:

10.1.1 the unaudited consolidated financial statements of the Group for the three-month financial period ended 31 March 2017 and the audited consolidated financial statements of the Group for nine-month financial period ended 31 December 2017; and

10.1.2 the audited combined financial statements of the Target Group for FY2017.

The pro forma financial effects of the Proposed Transactions are for illustrative purposes only. The objective is to illustrate what the historical information might have been had the Proposed Transactions been completed at an earlier date. However, such information is not necessarily indicative of the actual results of the operations or the related effects in the financial position that would have been attained had the Proposed Transactions been completed at such an earlier date. Given that the financial effects presented below are pro forma in nature and only for illustrative purposes, it does not necessarily represent the actual financial position and/or results of the Enlarged Group immediately after Completion.

10.2 Assumptions

For the purposes of illustration, the financial effects of the Proposed Transactions are computed based on, among others, the following assumptions:

10.2.1 the financial effects of the Proposed Transactions on the earnings and the earnings per Share for the financial year ended 31 December 2017 are computed assuming that the Proposed Transactions are completed on 1 January 2017;

10.2.2 the financial effects of the Proposed Transactions on the share capital, NTA and gearing of the Enlarged Group as at 31 December 2017 are computed assuming that the Proposed Transactions are completed on 31 December 2017;

10.2.3 the aggregate of 132,000,000 Consideration Shares (including the Advisor Shares) were issued at the Issue Price on 1 January 2017;

10.2.4 the aggregate of 10,000,000 Transaction Costs Shares (assuming Transaction Costs of S\$2.0 million) and 24,000,000 Settlement Shares were issued at the Issue Price on 1 January 2017;

10.2.5 the Settlement Shares are issued to Bin Tai in full and final settlement of the Amount Owning on Completion, resulting in the assets, liabilities and NTA of the Group being zero;

10.2.6 the Transaction Costs in connection with the Proposed Transactions (including the Proposed Acquisition) are disregarded for the purposes of calculating the financial

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effects, except for stamp duty payable on the transfer of the Option Shares pursuant to the Proposed Acquisition;

- 10.2.7 the Proposed Acquisition will result in the sole shareholder of the Target (i.e. the Vendor) obtaining majority interest in the Enlarged Number of Issued Shares upon Completion and, as such, the Proposed Acquisition is accounted for as a reverse acquisition, in which the Target, the legal subsidiary, is deemed to be the accounting acquirer that acquires the Company, which is the legal parent and accounting acquiree.

Under the reverse acquisition accounting, the cost of the acquisition will be recognised as an expense in the profit or loss of the Enlarged Group. For this purpose, the cost of acquisition will be measured as the excess of (a) the consideration effectively transferred (which is generally measured at acquisition-date fair value) by the Target, which is the accounting acquirer, over (b) the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed of the Company.

In view of the Company having ceased its operations and being a cash company, the cost of the acquisition will be the consideration effectively transferred by the Target, which will be measured based on the fair value of the Company's equity interest, as represented by the total number of issued Shares existing as at the date of Completion, computed based on the closing market price of each Share on the last trading day preceding Completion.

For the purposes of the financial effects of the Proposed Transactions on the earnings and earnings per Share, it is assumed that the Proposed Transactions are completed on 1 January 2017, and the Company's equity interest is computed based on the closing market price of S\$0.02 per Share. For the purposes of the financial effects of the Proposed Transactions on the NTA and NTA per Share, it is assumed that the Proposed Transactions are completed on 31 December 2017, and the Company's equity interest is computed based on the closing market price of S\$0.015 per Share; and

- 10.2.8 based on the exchange rate of S\$1:RM3.0285, being the closing rate for FY2017, and S\$1:RM3.1140, being the average rate for FY2017.

10.3 Financial effects on share capital

	Number of Shares or Consolidated Shares	Issued and paid-up share capital (S\$'000)
Issued and paid-up share capital as at 31 December 2017	73,631,858	36,827
After Proposed Share Consolidation	3,681,592	36,827
Add: Proposed Acquisition ⁽¹⁾	166,000,000	33,200
Add: Proposed Capital Reduction ⁽²⁾	—	(36,826)

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	Number of Shares or Consolidated Shares	Issued and paid-up share capital (S\$'000)
Effect of reverse acquisition accounting ⁽³⁾	–	(21,036)
Issued and paid-up capital of the Enlarged Group after the Proposed Transactions	169,681,592	12,165

Notes:

- (1) This takes into account the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares (assuming Transaction Costs of S\$2.0 million) and the Settlement Shares.
- (2) Please refer to Section 5 entitled “Proposed Capital Reduction” of this Circular for the details of the Proposed Capital Reduction.
- (3) In preparation of the unaudited pro forma consolidated financial information of the Enlarged Group, the pro forma adjustments for the Enlarged Group has been made due to reverse acquisition accounting, assuming the Enlarged Group has been in place since 1 January 2017.

10.4 Financial effects on NTA and NTA per Share or Consolidated Share

	Before the Proposed Transactions	After the Proposed Transactions
(NTL)/NTA as at 31 December 2017 (S\$'000)	(5,840) ⁽¹⁾	13,005 ⁽²⁾
Number of Shares or Consolidated Shares	73,631,858 ⁽³⁾	169,681,592 ⁽⁴⁾
(NTL)/NTA per Share or Consolidated Share (cents)	(7.93) ⁽¹⁾	7.66 ⁽²⁾

Notes:

- (1) Net tangible loss of the Group as at 31 December 2017.
- (2) Net tangible asset of the Enlarged Group as of 31 December 2017.
- (3) The total number of Shares as at 31 December 2017.
- (4) The total number of Consolidated Shares after the Proposed Share Consolidation and the issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares (assuming Transaction Costs of S\$2.0 million) and the Settlement Shares.

10.5 Financial effects on earnings and earnings per Share or Consolidated Share

	Before the Proposed Transactions	After the Proposed Transactions
Profit/(Loss) for FY2017 (S\$'000)	300 ⁽¹⁾	(8,527) ⁽²⁾
Weighted average number of Shares or Consolidated Shares	73,631,858 ⁽³⁾	169,681,592 ⁽⁴⁾
Profit/(Loss) per Share or Consolidated Share (cents)	0.41 ⁽¹⁾	(5.03) ⁽²⁾

Notes:

- (1) Profit after tax of the Group for FY2017.
- (2) The Enlarged Group's loss for FY2017 is derived after certain pro forma adjustments, including the reverse acquisition accounting, which resulted in the recognition of listing expenses. Please refer to **Appendix F**

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entitled “Report on Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group for the Financial Year ended 31 December 2017 and the Six-Month Period ended 30 June 2018” for details.

- (3) The total number of Shares as at 31 December 2017.
- (4) The total number of Consolidated Shares after the Proposed Share Consolidation and the issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares (assuming Transaction Costs of S\$2.0 million) and the Settlement Shares.

10.6 Financial effects on gearing

	Before the Proposed Transactions	After the Proposed Transactions
Net debt as at 31 December 2017 (S\$'000)	5,866 ⁽¹⁾	28,300 ⁽²⁾
Shareholders' (deficit)/equity as at 31 December 2017 (S\$'000)	(5,840)	13,005
Gearing (times) ⁽³⁾	Not meaningful	2.18

Notes:

- (1) Total debt net of cash and short-term deposits of the Group as of 31 December 2017.
- (2) Total debt net of cash and short-term deposits of the Enlarged Group as of 31 December 2017.
- (3) Gearing is determined based on net debt divided by shareholders' equity. The Enlarged Group's net debt includes borrowings, trade and other payables, less cash and short-term deposits.

11. SUBMISSION TO THE SGX-ST

On 8 November 2018, the Sponsor had submitted the pre-admission notification to the SGX-ST. A copy of this Circular has been lodged by the Financial Adviser and Sponsor with the SGX-ST, acting as agent on behalf of the Authority, on 21 December 2018 for posting on the SGX-ST website.

Pursuant to Appendix 4F of the Catalist Rules, the SGX-ST is expected to issue a listing and quotation notice in respect of the Consolidated Shares, the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares upon lodgement of this Circular with the SGX-ST, acting as agent on behalf of the Authority.

It should be noted that the listing and quotation notice issued by the SGX-ST is in no way reflective of the merits of any of the Proposed Transactions, the Company, the Target Group, the Enlarged Group, the Shares, the Consolidated Shares, the Consideration Shares, the Transaction Costs Shares or the Settlement Shares.

12. ENLARGED GROUP

12.1 Principal business

As at the date of this Circular, the Company is a cash company and does not carry on any business or operations.

Following Completion, the principal business of the Company will be the Target Business. Please refer to Section 4 entitled “Business Overview” of the Target Letter for more information on the Target Group and the Target Business.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

12.2 Group structure upon Completion

12.2.1 Group

As at the Latest Practicable Date, the Company has one subsidiary, MAE Engineers Pte. Ltd. (“**MAE Engineers**”). MAE Engineers has been dormant since April 2008. To facilitate the Proposed Acquisition, the Company and Mr Ong have entered into a sale and purchase agreement dated 21 December 2018 for the sale of all of the issued shares in the capital of MAE Engineers to Mr Ong for a nominal consideration of S\$1.00. The disposal of all of the issued shares in the capital of MAE Engineers constitutes an Interested Person Transaction, as to which please see Section 17.1.2 entitled “Disposal of MAE Engineers to Mr Ong” of this Circular.

The SIC has ruled that the disposal of all of the issued shares in the capital of MAE Engineers to Mr Ong for a nominal consideration does not constitute a special deal for the purposes of Rule 10 of the Code.

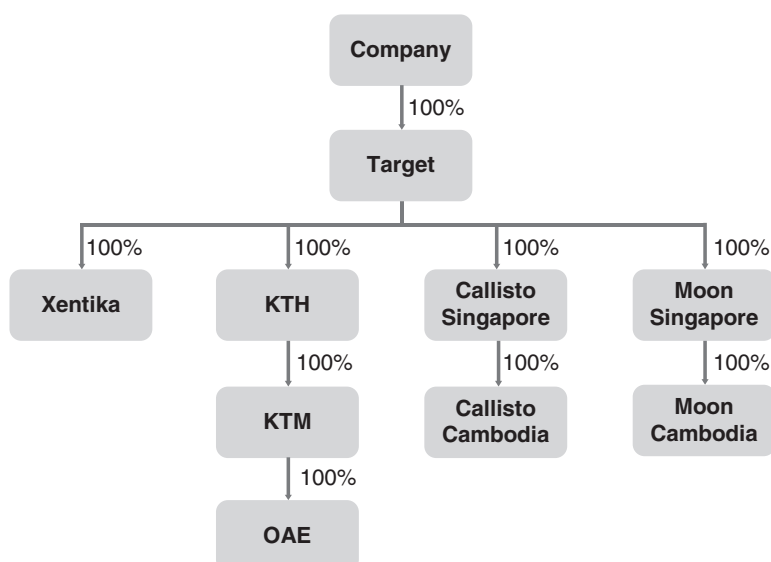
The disposal of MAE Engineers is expected to be completed by 31 December 2018.

12.2.2 Target Group

The details of the Target Group are set out in Section 3 entitled “Restructuring Exercise and Group Structure” of the Target Letter.

12.2.3 Enlarged Group

Upon Completion, the structure of the Enlarged Group will be as follows:



LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

12.3 Changes in shareholding structure

Pursuant to the Proposed Share Consolidation and the Proposed Acquisition, the Company will be issuing the Consideration Shares, the Transaction Costs Shares and the Settlement Shares. After completion of the Proposed Share Consolidation, the Proposed Acquisition and the Proposed Capital Reduction, and assuming the allotment and issue of 10,000,000 Transaction Costs Shares, the issued share capital of the Enlarged Group will be S\$12,165,000 comprising 169,681,592 Consolidated Shares. The public Shareholders' shareholding in the Company would be approximately 4.76% of the Enlarged Number of Issued Shares.

To meet the 15.0% public float requirement under Rule 1015(3)(a) read with Rule 406(1) of the Catalist Rules, Bin Tai has agreed under the Settlement Shareholders' Undertaking to undertake the Bin Tai Placement such that Bin Tai and Mr Ong will cease to be Substantial Shareholders after completion of the Bin Tai Placement. See Section 2.9.3 entitled "Bin Tai Placement" of this Circular for further details. The SGX-ST has granted to Bin Tai and Mr Ong a waiver from compliance with the moratorium requirements under Rule 1015(3)(b)(i) read with Rules 420, 421 and 422 or 443 in respect of the Shares in which they have an interest as at the date of this Circular. Please see Section 18.4 entitled "Controlling Shareholder Moratorium Waiver" for details of the waiver.

Taking into account the moratorium waiver referred to above, the remaining Shares (which will constitute less than 5% of the issued Shares at that time) in which Bin Tai and Mr Ong have an interest will be included in the computation of the public float. Following the completion of the Bin Tai Placement, the public Shareholders' shareholding in the Company would be approximately 19.55% of the Enlarged Number of Issued Shares. As a result, the Company will be able to meet the public float requirement.

As at the Latest Practicable Date, the issued and paid-up share capital of the Company was S\$36,827,431 comprising 73,631,858 Shares. There is only one (1) class of shares in the capital of the Company. The rights and privileges attaching to the Shares are set out in the Existing Constitution.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Details of the changes in the shareholding structure of the Company after, among other things, the Proposed Share Consolidation and the Proposed Acquisition are set out in the table below:

	As at the Latest Practicable Date			After the Proposed Share Consolidation but before the Proposed Acquisition and the Bin Tai Placement			After the Proposed Share Consolidation and the Proposed Acquisition but before the Bin Tai Placement			After the Proposed Share Consolidation, the Proposed Acquisition and the Bin Tai Placement		
	No. of Shares	% of total issued Shares	Deemed	No. of Shares	% of total issued Shares	Deemed	No. of Shares	% of total issued Shares	Deemed	No. of Shares	% of total issued Shares	Deemed
Directors												
Tan Sri Dato' Kamaruzzaman Bin Shariff	173,824	0.24	-	8,691	0.24	-	8,691	0.01	-	8,691	0.01	-
Ong Puay Koon (1)(4)(5)	1,297,240	1.76	19,467,321	64,862	1.76	973,366	64,862	0.04	24,973,366	64,862	0.04	8,208,366
Ong Choon Lui	1,074,584	1.46	-	53,729	1.46	-	53,729	0.03	-	53,729	0.03	-
Goh Yeow Tin	77,152	0.10	-	3,858	0.10	-	3,858	n.m. ⁽⁶⁾	-	3,858	n.m. ⁽⁶⁾	-
Wong Heang Fine	100,128	0.14	640	5,006	0.14	32	5,006	n.m. ⁽⁶⁾	32	5,006	n.m. ⁽⁶⁾	32
Yap Boh Pin	145,248	0.20	-	7,262	0.20	-	7,262	n.m. ⁽⁶⁾	-	7,262	n.m. ⁽⁶⁾	-
New Directors (other than the Directors above)												
Lim Siau Hing ⁽²⁾⁽³⁾	-	-	-	-	-	-	51,500,000	30.35	85,000,000	51,500,000	30.35	85,000,000
Lim Vhe Kai ⁽³⁾	-	-	-	-	-	-	-	-	85,000,000	-	-	85,000,000
Koh Boon Huat	-	-	-	-	-	-	-	-	-	-	-	-
Substantial Shareholders (other than the Directors and New Directors)												
Bin Tai ⁽⁴⁾⁽⁵⁾	18,214,144	24.74	-	910,707	24.74	-	24,910,707	14.68	-	8,145,707	4.80	-
Spektra Anggun Sdn Bhd	5,565,300	7.56	-	278,265	7.56	-	278,265	0.16	-	278,265	0.16	-
Family Trust Company ⁽³⁾	-	-	-	-	-	-	85,000,000	50.09	-	85,000,000	50.09	-
Family Trustee Company ⁽³⁾	-	-	-	-	-	-	-	-	85,000,000	-	-	85,000,000

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

	As at the Latest Practicable Date			After the Proposed Share Consolidation and the Bin Tai Placement			After the Proposed Share Consolidation but before the Bin Tai Placement			After the Proposed Share Consolidation, the Proposed Acquisition and the Bin Tai Placement		
	Direct	Deemed	% of total issued Shares	Direct	Deemed	% of total issued Shares	Direct	Deemed	% of total issued Shares	Direct	Deemed	% of total issued Shares
	No. of Shares	No. of Shares	% of total issued Shares	No. of Shares	No. of Shares	% of total issued Shares	No. of Shares	No. of Shares	% of total issued Shares	No. of Shares	No. of Shares	% of total issued Shares
Other Shareholders												
Advisor	-	-	-	-	-	-	5,500,000	-	-	5,500,000	-	-
Bintai Kinden Corporation Berhad	1,253,177	-	-	62,659	-	-	62,659	-	-	62,659	-	-
Existing public Shareholders	45,731,061	-	-	2,286,553	-	-	2,286,553	-	-	19,051,553	-	-
Total	73,631,858	100.00	-	3,681,592	100.00	-	169,681,592	100.00	-	169,681,592	100.00	-

Notes:

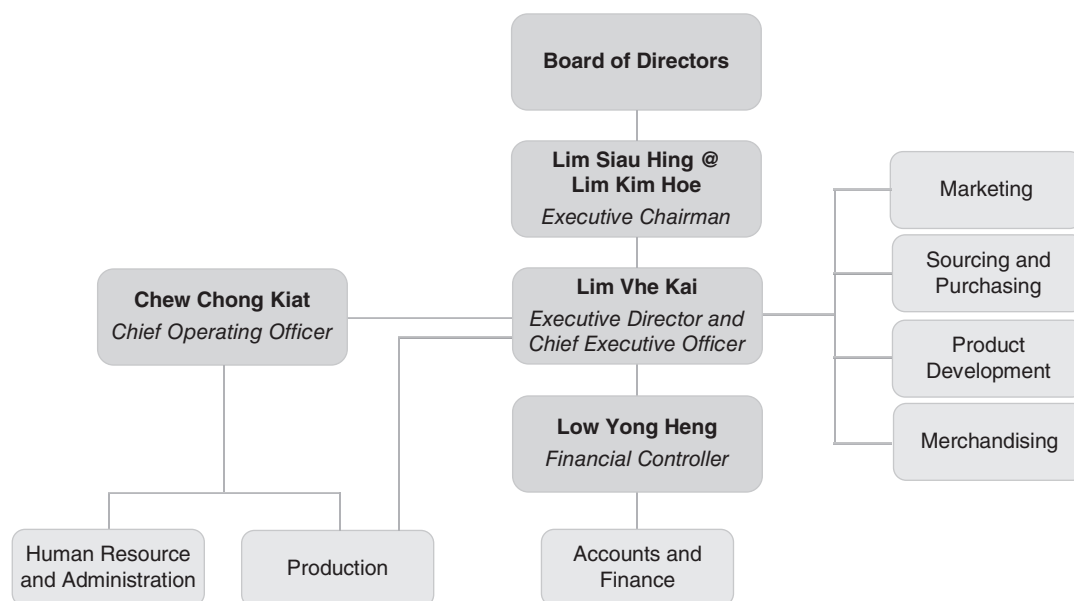
- (1) As at the Latest Practicable Date, in addition to the 1,297,240 Shares that are directly held by Mr Ong, he is also deemed to be interested in an aggregate of 19,467,321 Shares, being the aggregate of 18,214,144 Shares held by Bin Tai and 1,253,177 Shares held by Bintai Kinden Corporation Berhad. Subject to and upon Completion and after the Share Consolidation, Mr Ong is deemed to be interested in the additional 24,000,000 Settlement Shares that will be allotted and issued to Bin Tai.
- (2) An aggregate of 41,500,000 Vendor Consideration Shares (out of a total of 126,500,000 Vendor Consideration Shares), and an aggregate of 10,000,000 Transaction Costs Shares (assuming Transaction Costs of S\$2.0 million) will be allotted and issued to Mr Lim Siau Hing upon Completion.
- (3) An aggregate of 85,000,000 Vendor Consideration Shares (out of a total of 126,500,000 Vendor Consideration Shares) will, at the direction of Mr Lim Siau Hing, be allotted and issued to the Family Trust Company as Mr Lim Siau Hing's nominee. The Family Trustee Company holds all of the issued shares in the capital of the Family Trust Company in its capacity as trustee of the Family Trust, and will therefore be deemed to have an interest in the 85,000,000 Vendor Consideration Shares held by the Family Trust Company. Mr Lim Siau Hing and Mr Lim Vhe Kai are the beneficiaries of the Family Trust. Accordingly, each of Mr Lim Siau Hing and Mr Lim Vhe Kai is deemed to have an interest in the 85,000,000 Vendor Consideration Shares held by the Family Trust Company.
- (4) Bin Tai holds 18,214,144 Shares as at the Latest Practicable Date, and will hold 910,707 Consolidated Shares after the Proposed Share Consolidation. After the Proposed Acquisition, Bin Tai will hold 24,910,707 Consolidated Shares (comprising 910,707 Consolidated Shares after the Proposed Share Consolidation and 24,000,000 Settlement Shares). Pursuant to the Bin Tai Placement, Bin Tai will place out 16,765,000 Consolidated Shares. Upon completion of the Bin Tai Placement, Bin Tai will hold 8,145,707 Consolidated Shares, representing approximately 4.80% of the Enlarged Number of Issued Shares.
- (5) After the Bin Tai Placement, Bin Tai will hold 8,145,707 Consolidated Shares, representing approximately 4.80% of the Enlarged Number of Issued Shares. Mr Ong's aggregate interest in the Consolidated Shares would be approximately 4.87% of the Enlarged Number of Issued Shares. Mr Ong and Mr Ong Choon Lui will step down as a Director upon Completion. As Mr Ong will cease to be a Director, and Mr Ong, Bin Tai and their respective associates will cease to be substantial shareholders after completion of the Bin Tai Placement, the remaining Shares (which will constitute less than 5% of the Enlarged Number of Issued Shares) in which Mr Ong, Bin Tai and their associates have an interest will be included in the computation of the public float.
- (6) Not meaningful.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

13. NEW DIRECTORS, NEW EXECUTIVE OFFICERS AND RELATED EMPLOYEES

13.1 Management reporting structure

The Company proposes to constitute the New Board and appoint a new senior management team following Completion. Accordingly, following Completion, the proposed management reporting structure of the Company will be as follows:



13.2 New Directors

13.2.1 Particulars of New Directors

The following New Directors will be entrusted with the responsibility for the overall management and direction of the Enlarged Group and their particulars are set out below:

Name	Age	Address	Proposed Position in Enlarged Group
Lim Siau Hing @ Lim Kim Hoe	72	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Executive Chairman
Lim Vhe Kai	43	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Executive Director and Chief Executive Officer
Goh Yeow Tin	67	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Lead Non-Executive and Independent Director

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Name	Age	Address	Proposed Position in Enlarged Group
Yap Boh Pin	77	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Non-Executive and Independent Director
Koh Boon Huat	64	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Non-Executive and Independent Director

As at the Latest Practicable Date, none of the New Independent Directors sits on the board of any of the Target Group Companies that are based in jurisdictions other than Singapore.

13.2.2 Qualifications and working experience of the New Directors

Information on the business and working experience, education and professional qualifications, if any, and areas of responsibilities of the New Directors are set out below:

Mr Lim Siau Hing is proposed to be appointed as the Executive Chairman of the Company upon Completion.

Mr Lim Siau Hing and his wife, Mrs Lim, founded KTM together in December 1988 to operate an apparel manufacturing factory from a small shop house in Batu Pahat, Johor, Malaysia. Since then, he has been instrumental in developing KTM into the Target Group today. He is currently the managing director of the Target Group and exercises general oversight of the operations of the Target Group. Over three (3) decades, the Target Group has significantly expanded its operations to become a well-established, reputable market player that exports its products to the EU, US and Canada. The Target Group's established reputation is evidenced by, among other things, its ability to retain several of its customers in the US and the EU as major customers and its increased sales to them over a number of years, despite being in a fragmented and competitive industry, and based on its discussions with customers and potential customers.

Mr Lim Siau Hing has accumulated a wealth of experience, knowledge and skills in the textile and apparel industry over the years. Mr Lim Siau Hing started his career in September 1969 as a supervisor in a yarn factory in Taiwan. From March 1970 to January 1974, he was a production manager in Oriental Industries Private Limited in Singapore, where he was in charge of overseeing the production process of synthetic fiber. From February 1974 to June 1977, he was a production manager with Syntex Industries Sdn Bhd in Malacca. From July 1977 to June 1981, Mr Lim Siau Hing was a director at Minat Industries Sdn Bhd, which he set up with a few business partners to operate a fabric dyeing factory in Batu Pahat. In December 1981, he founded Knit Textiles Industries Sdn Bhd with Mrs Lim and a business partner to operate a fabric knitting factory in Batu Pahat. This eventually led to Mr Lim Siau Hing and Mrs Lim setting up KTM in December 1988.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Mr Lim Siau Hing graduated from Feng Jia College, Taiwan with a diploma in textile engineering in July 1969.

Mr Lim Vhe Kai is proposed to be appointed as an Executive Director and CEO of the Company upon Completion. As CEO, he will be responsible for the overall management of the operations, strategic planning and business development of the Enlarged Group.

Mr Lim Vhe Kai has more than 16 years of experience in the apparel manufacturing sector, having been with the Target Group since August 2002. He is currently the marketing director of the Target Group. Apart from heading the marketing functions of the Target Group, he also oversees the sourcing and purchasing, product development, and merchandising departments, and jointly oversees the production department with Mr Chew Chong Kiat.

Prior to joining the Target Group in August 2002, Mr Lim Vhe Kai was an information technology executive at Ramatex Industries Sdn Bhd from 1997 to 1998, and a system and network engineer at CN Eminent Systems Sdn Bhd from 1998 to 2000. He then joined e-Komoditi.com Sdn Bhd as a system and network engineer from 2000 to 2001, before taking up the position of group network security consultant at RHB Management Company Sdn Bhd from 2001 to July 2002. He joined the Target Group in August 2002 to help his father, Mr Lim Siau Hing, in the family business.

Mr Lim Vhe Kai graduated with a Bachelor of Science, Computer Information Systems (Honours) from the University of Windsor, Ontario, Canada in 1997.

Mr Goh Yeow Tin is proposed to be appointed as the Lead Non-Executive and Independent Director of the Company upon Completion. He currently serves as a Non-Executive and Independent Director of the Company, and was appointed on 1 October 2007. He was further appointed as the Chairman of the Company's Nominating Committee on 16 February 2012.

Mr Goh Yeow Tin is currently the non-executive chairman of Seacare Medical Holdings Pte Ltd and Seacare Manpower Pte Ltd. Mr Goh Yeow Tin began his career in September 1979 with the Economic Development Board (“EDB”) where he headed the Local Industries Unit and was subsequently appointed as a director of EDB’s Automation Application Centre in 1983. Mr Goh Yeow Tin was the founding member of the Association of Small and Medium Enterprise and founded International Franchise Pte Ltd in 1986, a pioneer in the franchising business in Singapore. Mr Goh Yeow Tin was previously the Deputy Managing Director of Tonhow Industries Ltd from 1991 to 1993, the first listed plastic injection moulding company on SGX-ST’s then second board, the Stock Exchange of Singapore Dealing and Automated Quotation system (SESDAQ). Mr Goh Yeow Tin was also previously the Vice President of Times Publishing Ltd from 1996 to 2006 and was responsible for the group’s retail and distribution businesses.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Mr Goh Yeow Tin graduated with a Bachelor Degree in Mechanical Engineering (Honours) from the University of Singapore in 1975 and obtained a Masters Degree in Industrial Engineering and Management from Asian Institute of Technology in 1979.

Mr Goh Yeow Tin presently holds directorships in several SGX-ST listed companies, including Sheng Siong Group Ltd. (lead independent director), AsiaPhos Limited (independent director), Vicom Ltd. (independent director) and TLV Holdings Limited (non-executive chairman and independent director).

Mr Goh Yeow Tin will be the chairman of the New Nominating Committee, a member of the New Audit Committee and a member of the New Remuneration Committee after Completion.

Mr Yap Boh Pin is proposed to be appointed as a Non-Executive and Independent Director of the Company upon Completion. He currently serves as a Non-Executive and Independent Director of the Company, and was appointed on 1 April 2004. He was further appointed as the Chairman of the Company's Audit Committee on 24 May 2011.

Mr Yap Boh Pin is presently the managing director of B.P.Y. Private Limited, a firm of management consultants which provides financial planning, financial accounting, reviewing internal control systems as well as corporate secretarial services. He has been with B.P.Y. Private Limited since January 1999.

From September 1969 to June 1975, Mr Yap Boh Pin was the General Manager of Shing Kwan Group, where he was responsible for the management of property investments of the group. In March 1976, he was appointed as a director of Shing Kwan Pte Ltd and has remained a director as at the Latest Practicable Date. From July 1975 to July 1999, Mr Yap Boh Pin was a senior partner at Yap Boh Pin & Co, which provided advice on auditing, taxation, liquidation and corporate restructuring matters.

In October 1966, Mr Yap Boh Pin qualified as a Chartered Accountant (Associate) from the Institute of Chartered Accountants in England and Wales. He also qualified as a Chartered Accountant (Fellow) of the Institute of Chartered Accountants in England and Wales, and the Institute of Singapore Chartered Accountants in January 1997 and January 2005 respectively.

Mr Yap Boh Pin's current directorships include TeleChoice International Limited (independent director), which is listed on the SGX-ST, Asia Mobile Holdings Pte. Ltd., which is a subsidiary of Singapore Technologies Telemedia Pte Ltd, and Overseas Realty (Ceylon) Plc, which is a public listed company in Sri Lanka. Mr Yap Boh Pin has also held directorships in various public companies from 1975 to 2000, including Singapore Land Limited, L&M Investments Limited and Pan Pacific Public Company Limited. During his appointment at these companies, Mr Yap Boh Pin was a member of their Executive Committee and/or Audit Committee, assisting in the evaluation and recommendation of changes to their system of internal controls as well as corporate governance.

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Mr Yap Boh Pin will be the chairman of the New Audit Committee, a member of the New Nominating Committee and a member of the New Remuneration Committee after Completion.

Mr Koh Boon Huat is proposed to be appointed as a Non-Executive and Independent Director of the Company upon Completion.

Mr Koh Boon Huat has 40 years of experience in the banking and finance industry. He commenced his career in October 1974 as a clerk in Malayan Banking Bhd, Batu Pahat. From March 1985 to February 1988, he was an officer of Arab-Malaysian Finance Bhd, Batu Pahat, before he joined First Malaysia Finance Berhad, Batu Pahat, in February 1988 where he was a credit officer. He subsequently left as an acting branch manger, and joined MBf Finance Berhad, Pontian in September 1991 and MBf Finance Berhad, Batu Pahat in August 1993 as a branch manager. Between March 1995 and December 1996, Mr Koh Boon Huat was the personal assistant to the managing director of S.P.I. Holdings Sdn. Bhd., Batu Bahat. He subsequently rejoined the banking industry as a branch manager for Oriental Bank Berhad, Batu Berendam, Melaka from January 1997 to August 1997 and Phileo Allied Bank Berhad, Batu Pahat from August 1997 to February 2001. Mr Koh Boon Huat was the branch manager of United Overseas Bank (Malaysia) Bhd, Kluang from March 2001 to April 2002 and branch manager of United Overseas Bank (Malaysia) Bhd, Batu Pahat from April 2002 to November 2008. He last held the position of area manager with United Overseas Bank (Malaysia) Bhd, South Area Centre from November 2008 to June 2016, where he was responsible for managing eight branches in Johor and Melaka with a staff force of over 400 employees. Mr Koh Boon Huat has extensive knowledge and expertise in banking operations, credit and marketing, compliance, collections and recovery.

In February 1998, Mr Koh Boon Huat obtained his Diploma in Management from Malaysian Institute of Management, and in April 2006, he graduated with a degree in Management (Honours) from Multimedia University. He was a committee member of Johor State Asian Institute of Chartered Bankers Advisory Council between August 2011 and June 2016.

Mr Koh Boon Huat is currently a non-executive independent director of Acoustech Bhd., which is a listed company on Bursa Malaysia Securities Berhad.

Mr Koh Boon Huat will be the chairman of the New Remuneration Committee, a member of the New Audit Committee and a member of the New Nominating Committee after Completion.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

13.2.3 Present and past directorships of the New Directors

The list of present and past directorships of each New Director for the last five (5) years preceding the Latest Practicable Date, excluding that to be held in the Company pursuant to Completion, is set out below:

Name	Present Directorships	Past Directorships
Lim Siau Hing	<u>Companies within Enlarged Group</u> Callisto Apparel Holdings Pte. Ltd. Knit Textile Holdings Sdn. Bhd. Knit Textiles Mfg. Sdn. Bhd. Moon Apparel Holdings Pte. Ltd. Ocean Art & Embellishment Sdn. Bhd. <u>Companies outside the Enlarged Group</u>	<u>Companies within Enlarged Group</u> – <u>Companies outside the Enlarged Group</u>
	Knit Textiles Industries Sdn. Bhd. ⁽¹⁾	–
Lim Vhe Kai	<u>Companies within Enlarged Group</u> Callisto Apparel (Cambodia) Co., Ltd. Knit Textiles Mfg. Sdn. Bhd. Moon Apparel (Cambodia) Co., Ltd. Ocean Art & Embellishment Sdn. Bhd. Xentika Limited <u>Companies outside the Enlarged Group</u>	<u>Companies within Enlarged Group</u> – <u>Companies outside the Enlarged Group</u>
	Haruaki Ventures Sdn. Bhd. ⁽²⁾ Vertical Delta Sdn. Bhd. Windsor Mile Capital Pte. Ltd.	High Essential Sdn. Bhd. Kaiji Sdn. Bhd. Precise Action Sdn. Bhd.

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Name	Present Directorships	Past Directorships
Goh Yeow Tin	<u>Companies within Enlarged Group</u> Lereno Bio-Chem Ltd. <u>Companies outside the Enlarged Group</u> AsiaPhos Limited Edu Community Pte. Ltd. Kiran Electronics B & C Services Pte. Ltd. Seacare Foundation Pte Ltd Seacare Manpower Services Pte Ltd Seacare Medical Holdings Pte. Ltd. Sheng Shiong Group Ltd. TLV Holdings Limited Vicom Ltd. Watertech Pte. Ltd.	<u>Companies within Enlarged Group</u> — <u>Companies outside the Enlarged Group</u> Linknet Asia Pte Ltd OEL (Holdings) Limited Singapore Post Limited
Yap Boh Pin	<u>Companies within Enlarged Group</u> Lereno Bio-Chem Ltd. <u>Companies outside the Enlarged Group</u> ACS (International) Asia Mobile Holdings Pte. Ltd. Amatil Investments (S) Pte Ltd B.P.Y. Private Limited Ceylon Shipping Agency Pte Ltd Eunicent Pte. Ltd. GZLNi Pte. Ltd. Havelock City (Pvt) Ltd K & N Pacific Investments (S) Pte Ltd Kraus & Naimer Pte. Ltd. Mireka Capital Land (Pvt) Ltd Mireka Homes (Pvt) Ltd Overseas Realty (Ceylon) PLC Park Tower Properties (Private) Limited	<u>Companies within Enlarged Group</u> — <u>Companies outside the Enlarged Group</u> Cosmopolitan Development Pte Ltd Kwan Investments Pte Ltd Robertson Quay Development Pte Ltd Singapore Heart Foundation STT Communications (Beijing) Co., Ltd Tan You Investments Pte Ltd Tennessee Pte. Ltd. The Marketing Interchange Pte. Ltd. Yappstar Pte. Ltd.

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Name	Present Directorships	Past Directorships
	S K Investments Lanka (Private) Limited Shing Investments Pte Limited Shing Kwan Investment (Singapore) Pte Ltd Shing Kwan Pte Ltd Singapore-Suzhou Township Development Pte Ltd STT Communications (Shanghai) Co., Ltd TeleChoice International Limited Tyma Investments Pte Ltd	
Koh Boon Huat	<u>Companies within Enlarged Group</u>	<u>Companies within Enlarged Group</u>
	—	—
	<u>Companies outside the Enlarged Group</u>	<u>Companies outside the Enlarged Group</u>
	Acoustech Bhd.	—

Notes:

- (1) Knit Textiles Industries Sdn. Bhd. is currently dormant and not carrying on any business activities. An application has been made for the striking off of Knit Textiles Industries Sdn. Bhd. and it is in the process of being struck off.

Given that, among other things, Knit Textiles Industries Sdn. Bhd. is not carrying on any business activities, the New Directors are of the view that it does not compete with the Target Group. Nevertheless, to avoid any perceived or potential conflict of interests in relation to Knit Textiles Industries Sdn. Bhd., Mr Lim Siau Hing, Mrs Lim and Knit Textiles Industries Sdn. Bhd. have also entered into a non-competition deed of undertaking dated 17 December 2018 with the Company. Please refer to Section 10.3.1 entitled “Potential Conflict of Interests in relation to Knit Textiles Industries Sdn. Bhd.” of the Target Letter for further details of the abovementioned non-competition deed of undertaking.

- (2) Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.) is currently dormant and not carrying on any business activities. An application has been made for the striking off of Haruaki Ventures Sdn Bhd and it is in the process of being struck off.

Given that, among other things, Haruaki Ventures Sdn. Bhd. is not carrying on any business activities, the New Directors are of the view that it does not compete with the Target Group. Nevertheless, to avoid any perceived or potential conflict of interests in relation to Haruaki Ventures Sdn. Bhd., Mr Lim Vhe Kai, Mr Chew Chong Kiat and Haruaki Ventures Sdn Bhd have also entered into a non-competition deed of undertaking dated 17 December 2018 with the Company. Please refer to Section 10.3.2 entitled “Potential Conflict of Interests in relation to Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.)” of the Target Letter for further details of the abovementioned non-competition deed of undertaking.

13.2.4 Experience and training of the New Directors

All of the New Directors possess the appropriate experience and expertise to act as New Directors, as evidenced by their business and working experience as set out above.

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Mr Goh Yeow Tin and Mr Yap Boh Pin, who are existing Directors and will remain on the Board as New Independent Directors after Completion, have relevant experience as directors of public listed companies in Singapore, and are familiar with the roles and responsibilities of a director of a public listed company in Singapore.

Mr Lim Siau Hing, Mr Lim Vhe Kai and Mr Koh Boon Huat do not have experience as a director of a public listed company in Singapore and have undertaken the relevant training in Singapore to familiarise themselves with the roles and responsibilities of a director of a public listed company in Singapore. Each of Mr Lim Siau Hing, Mr Lim Vhe Kai and Mr Koh Boon Huat has undertaken with the Company that he will, in due course, attend the relevant courses organised by the Singapore Institute of Directors within one (1) year of Completion.

13.2.5 Arrangement relating to the New Directors

As at the Latest Practicable Date, none of the New Directors has any arrangement or understanding with any of the Substantial Shareholders of the Company, customers or suppliers of the Enlarged Group or other person pursuant to which the New Directors are or will be appointed.

13.3 New Executive Officers

13.3.1 Particulars of the New Executive Officers

Upon Completion, the Enlarged Group will have a new senior management team. As at the Latest Practicable Date, the particulars of the New Executive Officers are as follows:

Name	Age	Address	Proposed Position in Enlarged Group
Chew Chong Kiat	45	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Chief Operating Officer
Low Yong Heng	48	50 Raffles Place #06-00 Singapore Land Tower Singapore 048623	Financial Controller

13.3.2 Qualifications and working experience of the New Executive Officers

Information on the business and working experience, education and professional qualifications, if any, and areas of responsibilities of the New Executive Officers are set out below:

Mr Chew Chong Kiat is proposed to be appointed as COO of the Company upon Completion. As the COO of the Company, he will be in charge of the day-to-day operations of the Enlarged Group.

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Mr Chew Chong Kiat has been with the Target Group since July 2002. He is currently the group general manager of the Target Group. He oversees the human resource and administration department and jointly oversees the production department with Mr Lim Vhe Kai.

Mr Chew Chong Kiat started his career as a credit control officer with Malpac Securities Sdn Bhd from March 1996 to December 1998. He then joined Wah Tat Bank Berhad as an operations officer in January 1999, before he made a career switch by joining the education sector. In early January 2000, he was a lecturer of Economics at Taylor's College, Subang in Malaysia and thereafter from July 2000 to June 2002, he was a lecturer of economics at Sepang Institute of Technology, Klang.

Mr Chew Chong Kiat graduated with a Bachelor of Arts, and a double major in Economics and Industrial Relations, from the University of Toronto, Canada in December 1995.

Mr Low Yong Heng is proposed to be appointed as the Financial Controller of the Company upon Completion.

Mr Low Yong Heng joined the Target Group in September 2017 as the Financial Controller of the Target Group. He supervises the accounts and finance department of the Target Group.

Prior to joining the Target Group, Mr Low Yong Heng had accumulated over 25 years of experience in the accounting and finance industry. He started his career in Sin Tat Seng Trading Sdn Bhd as an account manager from September 1993 to February 1995, before moving on to Klynveld Peat Marwick Goerdeler (KPMG) as an audit semi-senior from April 1995 to December 1997. From January 1998 to March 2002, he was an accountant in Nam Fatt Construction Sdn Bhd. From April 2002 to November 2012, he was a senior finance and purchasing manager at Vickers Hoskins (M) Sdn Bhd (a subsidiary of Nam Fatt Corporation Bhd), where he managed and led the accounting and finance team, prepared financial forecasts, statements and budgets for corporate exercises, established accounting control procedures and liaised with tax authorities, external auditors, banks and various government agencies.

From July 2013 to March 2014, Mr Low Yong Heng was a finance manager for the Singapore operations of Scania (Malaysia) Sdn Bhd. He joined PTS Properties Sdn Bhd as financial controller in May 2014, and subsequently Yong Tai Berhad as head of accounts and corporate finance in September 2014.

Mr Low Yong Heng graduated with a Bachelor of Commerce (Accountancy) from the University of Wollongong, New South Wales, Australia in July 1993. He subsequently qualified as a certified practising accountant of the Australian Society of Certified Practising Accountants in October 1996, a public accountant of the Malaysian Institute of Accountants in April 1997 and a chartered accountant of the Malaysian Institute of Accountants in June 2001.

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13.3.3 New Audit Committee Statement

The New Audit Committee has: (a) conducted an interview with Mr Low Yong Heng; (b) considered his qualifications and past working experience; (c) observed his abilities, familiarity and diligence in relation to the financial matters and information of the Target Group; and (d) noted the absence of any negative feedback from the internal auditors and Ernst & Young LLP. Taking into account the foregoing, the New Audit Committee is of the view that Mr Low Yong Heng is suitable for the position of the Company's Financial Controller.

After making all reasonable enquiries, and to the best of its knowledge and belief, nothing has come to the attention of the New Audit Committee to cause it to believe that Mr Low Yong Heng does not have the competence, character and integrity expected of a Financial Controller of a listed company.

13.3.4 Present and past directorships of the New Executive Officer

The list of present and past directorships of the New Executive Officers for the last five (5) years preceding the Latest Practicable Date is set out below:

Name	Present Directorships	Past Directorships
Chew Chong Kiat	<u>Companies within Enlarged Group</u>	<u>Companies within Enlarged Group</u>
	Callisto Apparel (Cambodia) Co., Ltd. Moon Apparel (Cambodia) Co., Ltd.	—
	<u>Companies outside the Enlarged Group</u>	<u>Companies outside the Enlarged Group</u>
	Haruaki Ventures Sdn. Bhd. ⁽¹⁾ Oracle Circle Sdn. Bhd. Oracle Matrix Sdn. Bhd. Platinum Splendid Sdn. Bhd. Splendid Perfect Sdn. Bhd.	High Essential Sdn. Bhd. Kaiji Sdn. Bhd. Precise Action Sdn. Bhd.
Low Yong Heng	<u>Companies within Enlarged Group</u>	<u>Companies within Enlarged Group</u>
	—	—
	<u>Companies outside the Enlarged Group</u>	<u>Companies outside the Enlarged Group</u>
	—	—

Note:

- (1) Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.) is currently dormant and not carrying on any business activities. An application has been made for the striking off of Haruaki Ventures Sdn Bhd and it is in the process of being struck off.

As Haruaki Ventures Sdn. Bhd. is not carrying on any business activities, it is not in competition with the Target Group. Nevertheless, to avoid any perceived or potential conflict of interests in

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relation to Haruaki Ventures Sdn. Bhd., Mr Lim Vhe Kai, Mr Chew Chong Kiat and Haruaki Ventures Sdn. Bhd. have also entered into a non-competition deed of undertaking dated 17 December 2018 with the Company. Please refer to Section 10.3.2 entitled “Potential Conflict of Interests in relation to Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.)” of the Target Letter for further details of the abovementioned non-competition deed of undertaking.

13.3.5 Arrangement relating to the New Executive Officers

As at the Latest Practicable Date, none of the New Executive Officers has any arrangement or understanding with any of the Substantial Shareholders of the Company, customers or suppliers of the Enlarged Group or other person pursuant to which the New Executive Officers are or will be appointed.

13.4 Relationship

- 13.4.1 Save as disclosed, as at the Latest Practicable Date, there is no family relationship between the New Directors, the New Executive Officers or the Substantial Shareholders of the Company.

Upon Completion, Mr Lim Siau Hing will be appointed as the Executive Chairman of the Company. Mr Lim Vhe Kai will be appointed as a New Executive Director and CEO of the Company. Mr Lim Siau Hing is the father of Mr Lim Vhe Kai.

- 13.4.2 There is no family relationship between the employees of the Enlarged Group upon whose work the Enlarged Group is dependent and the New Directors, the New Executive Officers or the Substantial Shareholders of the Company.

- 13.4.3 As at the Latest Practicable Date, neither the Company nor the Target Group has any employee who is an immediate family member of a Director, the CEO or a New Director whose remuneration exceeds S\$50,000 per year.

Mrs Lim is as at the Latest Practicable Date, and will after Completion continue to be, employed by the Target Group as a relationship manager. Mrs Lim is the spouse of Mr Lim Siau Hing and mother of Mr Lim Vhe Kai. Her primary responsibilities are to assist Mr Lim Siau Hing to liaise with, and maintain the Target Group’s relationship with, the suppliers and customers of the Target Group. The compensation (including salary, bonus, statutory contribution and benefits-in-kind) paid by the Target Group to her for FY2016 and FY2017, being the two (2) most recently completed financial years, in bands of S\$50,000, is set out below:

Name	FY2016	FY2017
Mrs Lim	Band A ⁽¹⁾	Band A ⁽¹⁾

Note:

- (1) Remuneration bands:
“Band A” refers to remuneration of up to S\$50,000 per annum. “Band B” refers to remuneration from S\$50,001 to S\$100,000 per annum.

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13.5 Remuneration

The compensation paid or payable to the New Directors, including the CEO to be appointed upon Completion (including directors' fees) and the New Executive Officers (including salary, bonus, statutory contribution and benefits-in-kind), for services rendered to the Target Group in all capacities, on an aggregate basis, for FY2016 and FY2017 (being the two (2) most recent completed financial years) and as estimated for FY2018 (such estimate excluding bonuses and any profit sharing plan) in remuneration bands of S\$250,000 per annum⁽¹⁾ are as follows:

	FY2016	FY2017	FY2018 (estimated)
New Directors			
Mr Lim Siau Hing ⁽²⁾	Band A ⁽¹⁾	Band A ⁽¹⁾	Band A ⁽¹⁾
Mr Lim Vhe Kai ⁽³⁾	Band A ⁽¹⁾	Band A ⁽¹⁾	Band A ⁽¹⁾
Mr Goh Yeow Tin	— ⁽⁴⁾	— ⁽⁴⁾	Band A ⁽¹⁾
Mr Yap Boh Pin	— ⁽⁴⁾	— ⁽⁴⁾	Band A ⁽¹⁾
Mr Koh Boon Huat	— ⁽⁴⁾	— ⁽⁴⁾	Band A ⁽¹⁾
New Executive Officers			
Mr Chew Chong Kiat	Band A ⁽¹⁾	Band A ⁽¹⁾	Band A ⁽¹⁾
Mr Low Yong Heng	— ⁽⁴⁾	Band A ⁽¹⁾	Band A ⁽¹⁾

Notes:

- (1) Remuneration bands:
"Band A" refers to remuneration of up to S\$250,000 per annum. "Band B" refers to remuneration from S\$250,001 to S\$500,000 per annum.
- (2) Mr Lim Siau Hing will be appointed as a New Director and Executive Chairman upon Completion.
- (3) Mr Lim Vhe Kai will be appointed as a New Director and CEO upon Completion.
- (4) Not employed or appointed by the Target Group during the relevant periods.

As at the Latest Practicable Date, no portion of the compensation disclosed above was paid or is to be paid:

- (a) pursuant to any bonus or profit-sharing plan or any other profit-linked agreement or arrangement; or
- (b) in the form of stock options.

Save for amounts set aside or accrued in respect of mandatory employee funds, no amounts have been set aside or accrued by the Target Group or the Enlarged Group to provide pension, retirement or similar benefits.

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13.6 Service Agreements

13.6.1 General

Save as disclosed below, as at the Latest Practicable Date, there are no existing or proposed service agreements entered or proposed to be entered into between any of the Enlarged Group and the New Directors or New Executive Officers which provides for compensation in the form of stock options, pensions, retirement or other similar benefits, or other benefits upon the termination of employment.

13.6.2 New Executive Directors

- (a) The Company has entered into separate service agreements dated 17 December 2018 (collectively “**Service Agreements**” and individually “**Service Agreement**”) with each of the New Executive Directors. Pursuant to these Service Agreements, Mr Lim Siau Hing and Mr Lim Vhe Kai will be appointed as Executive Chairman, and Executive Director and CEO, of the Company respectively. The Service Agreements will take effect on the Completion Date.

The initial term of each New Executive Director’s employment is fixed for three (3) years and shall thereafter be automatically renewed on a year to year basis on such terms to be agreed between each New Executive Director and the Company, provided that any variation of the terms shall be subject to the approval of the New Remuneration Committee and the New Board.

- (b) Each Service Agreement provides, among other things, that during the continuance of such agreement, unless prevented by ill health or accident, the New Executive Director will devote substantially the whole of his time, attention, abilities and skills to carrying out his duties and responsibilities properly and effectively.

Either the Company or the New Executive Director may terminate the relevant Service Agreement by not less than six (6) months’ written notice, or in lieu of notice, payment of an amount equivalent to six (6) months’ salary based on the New Executive Director’s last drawn monthly salary.

Each Service Agreement may be terminated immediately by notice in writing by the Company prior to the expiry of the term in any of the following cases:

- (i) if the New Executive Director commits any material or persistent breach or non-observance of any of his obligations under the relevant Service Agreement;
- (ii) if the New Executive Director is guilty of any grave or wilful misconduct or gross neglect or gross negligence in the discharge of his duties and obligations imposed by the relevant Service Agreement or otherwise in connection with or affecting the business of the Company or the Enlarged Group;

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- (iii) if the New Executive Director becomes bankrupt or makes any composition or arrangement with or for the benefit of his creditors;
- (iv) if the New Executive Director is convicted of any offence (save for an offence under any road traffic legislation for which he is not sentenced to any term of immediate or suspended imprisonment) or has any judgment (whether in criminal or civil proceedings), including findings in relation to fraud, misrepresentation or dishonesty, given against him, whether or not in connection with or referable to his employment;
- (v) if the New Executive Director engages in any conduct (whether or not in the course of his employment) tending to bring himself or the Company or the Enlarged Group into disrepute or otherwise materially and adversely affecting the interests of the Company or the Enlarged Group;
- (vi) if the New Executive Director becomes of unsound mind;
- (vii) if the New Executive Director is incapacitated by reason of his health or accident from performing his duties and obligations hereunder and shall have been so incapacitated for a total period of 180 days or more (whether or not consecutive) in the preceding twelve (12) months; or
- (viii) if the New Executive Director shall cease to hold the office of Director pursuant to the constitution of the Company, or is prohibited or disqualified from holding the office of, or acting as, a Director pursuant to any applicable laws, for whatever reason.

The Service Agreements do not provide for any of the New Executive Directors to be entitled to claim any benefits upon termination of his employment.

- (c) Pursuant to the terms of the Service Agreements, the New Executive Directors are entitled to basic monthly salaries as set out below:

New Executive Director	Monthly Salary (RM)
Mr Lim Siau Hing	75,000
Mr Lim Vhe Kai	60,000

Each New Executive Director will be entitled to a fixed annual bonus of three (3) month's salary. Each New Executive Director will be provided a private vehicle in Malaysia and the Company shall be responsible for all road taxes and expenses incurred in respect of such car, including petrol, insurance, maintenance, operating and repair expenses. All travelling, accommodation, meals, entertainment expenses, mobile phone and other out-of-pocket expenses reasonably incurred by the New Executive Directors in the proper performance of their duties will be borne by the Company.

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Mr Lim Siau Hing and Mr Lim Vhe Kai will be entitled to an annual variable bonus that is determined on an annual profit sharing basis, calculated based on the PBT, provided that Mr Lim Siau Hing and Mr Lim Vhe Kai is under the employment of the Enlarged Group on the last day of the relevant financial year. For this purpose, “**PBT**” refers to the audited consolidated profit before income tax, excluding non-controlling interest, any exceptional or extraordinary items and before including such annual variable bonus of the Enlarged Group.

The amount of annual variable bonus will be determined as follows:

PBT	Amount of Variable Bonus
Where PBT does not exceed RM7.0 million	Nil
Where PBT exceeds RM7.0 million but does not exceed RM10.0 million	3.0% of the PBT
Where PBT exceeds RM10.0 million but does not exceed RM13.0 million	3.5% of the PBT
Where PBT exceeds RM13.0 million	4.0% of the PBT

Mr Lim Siau Hing and Mr Lim Vhe Kai are proposed to be the Executive Chairman, and Executive Director and CEO, of the Company respectively after Completion, and both of them will be responsible for the management and for driving the growth of the Enlarged Group. The Company believes that Mr Lim Siau Hing and Mr Lim Vhe Kai will make invaluable contributions to the Enlarged Group. The Company believes that the profit sharing annual variable bonus will spur them on to further optimise their performance and efficiency and to reward them for their significant contributions to the Enlarged Group.

- (d) Pursuant to their respective Service Agreements, each New Executive Director will not, during the term of his employment and the period of twelve (12) months after the termination of his employment:
- (i) carry on or be engaged, concerned or interested in any business, trade or activity, in any territories where the Enlarged Group has carried on or conducted or engaged in business (including any territories into which the Enlarged Group has sold any products) at any time during the twelve (12) months preceding the date of termination of the relevant Service Agreement), which competes directly or indirectly with the business of the Enlarged Group carried on prior to the date of the termination of the relevant Service Agreement. However, the New Executive Director is not prohibited from holding not more than 5% of the total issued shares in any company listed on any recognised stock exchange provided that he does not participate in and is not otherwise involved in the management of such company;

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- (ii) solicit or entice away from the Enlarged Group the business or custom of any person who is at the time of termination of the relevant Service Agreement, or was at any time during the period of twelve (12) months immediately preceding such termination, a customer, supplier, distributor, principal, manufacturer, sub-contractor or agent or otherwise in the habit of dealing with the Enlarged Group, or persuade, induce or encourage any such person to terminate any arrangement, relationship or dealings, or reduce the level of dealings, with the Enlarged Group, or otherwise interfere with any arrangement or relationship between any such person and the Enlarged Group, or attempt to do any of the foregoing;
- (iii) persuade, solicit or induce, or attempt to persuade, solicit or induce, any employee, manager or consultant of the Company as at the time of termination of the relevant Service Agreement, or during the period of twelve (12) months immediately preceding such termination, to leave the employment of the Enlarged Group or enter into any alternative employment (whether or not this will result in such person committing a breach of his contract with the relevant Enlarged Group company). However, nothing prohibits any generic solicitation for employees in newspapers, trade publications and other public media that is directed at the general public and not directed specifically towards employees of the Enlarged Group.
- (e) Had the Service Agreements been in existence since the beginning of FY2017, the aggregate remuneration paid to the New Directors would have been approximately RM3.0 million instead of RM0.6 million and the PBT and net profit after tax would have been approximately RM10.3 million (instead of RM12.7 million) and RM7.2 million (instead of RM8.8 million), respectively.

13.7 Material background information

None of the New Directors, the New Executive Officers or Controlling Shareholders of the Company after Completion:

- 13.7.1 had at any time during the last ten (10) years, had an application or a petition under any bankruptcy laws in any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within two (2) years after the date he ceased to be a partner;
- 13.7.2 had at any time during the last ten (10) years, had an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two (2) years after the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;
- 13.7.3 has any unsatisfied judgment against him;

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- 13.7.4 has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty, which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;
- 13.7.5 has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach;
- 13.7.6 has at any time during the last ten (10) years, had any judgment entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part;
- 13.7.7 has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;
- 13.7.8 has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;
- 13.7.9 has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity;
- 13.7.10 has ever to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:
- (a) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;
 - (b) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;
 - (c) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere;
or
 - (d) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust; and/or

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13.7.11 has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Authority or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere.

14. CORPORATE GOVERNANCE

14.1 Board practices

The New Directors recognise the importance of corporate governance and maintaining high standards of accountability to the Shareholders. The New Directors will use best efforts to implement the practices recommended in the Code of Corporate Governance 2018, which will apply in respect of financial years commencing from 1 January 2019.

Upon Completion, Mr Lim Siau Hing will be appointed as the Executive Chairman, and Mr Lim Vhe Kai will be appointed as the New Executive Director and CEO. Mr Lim Siau Hing is the father of Mr Lim Vhe Kai. Under Guideline 2.2 of the Code of Corporate Governance 2018, which will come into force on 1 January 2019, a majority of the New Board is required be made up of New Independent Directors as the Executive Chairman and the CEO are immediate family members, the Executive Chairman is part of the management team and the Executive Chairman is not an Independent Director. Upon completion of the Proposed Transactions, the New Board will comprise of the two (2) New Executive Directors and three (3) New Independent Directors, whose office will expire in accordance with the provisions of the Constitution. As such, the composition of the New Board upon Completion will be in compliance with the Code of Corporate Governance 2018 when it comes into force on 1 January 2019.

The three (3) New Independent Directors are Mr Goh Yeow Tin, Mr Yap Boh Pin and Mr Koh Boon Huat. Mr Koh Boon Huat has no existing business or professional relationship of a material nature with the Company, the Target Group, the other New Directors and/or the Substantial Shareholders of the Company or the Target Group. In relation to the independence of Mr Goh Yeow Tin and Mr Yap Boh Pin, please see Section 14.2 entitled “Mr Goh Yeow Tin and Mr Yap Boh Pin as New Independent Directors” of this Circular.

The New Board will have overall responsibility for the corporate governance of the Enlarged Group so as to protect and enhance long-term Shareholder value. It will set the overall strategy for the Enlarged Group and supervise executive management and monitor their performance. Apart from its statutory responsibilities, the New Board will be responsible for:

- 14.1.1 reviewing the financial performance and condition of the Enlarged Group;
- 14.1.2 approving the Enlarged Group’s strategic plans, key operational initiatives, major investment and funding decisions; and
- 14.1.3 identifying principal risks of the Enlarged Group’s business and ensuring the implementation of appropriate systems to manage the risks.

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The New Board will hold half yearly meetings every year, with additional meetings for particular matters convened when necessary. The New Board will also periodically review the internal control and risk management systems of the Enlarged Group to ensure that there are sufficient guidelines and procedures in place to monitor its operations.

The New Board will continue to implement a policy of providing full disclosure of material corporate information as commercially appropriate through press announcements, press releases, Shareholders' circulars as well as through the interim and annual financial results announcements.

Every New Director will be expected, in the course of carrying out his duties, to act in good faith, provide insights and consider at all times the interests of the Company.

All other matters will be delegated to various committees whose actions will be monitored by the New Board. These committees include the New Audit Committee, the New Nomination Committee and the New Remuneration Committee. Each committee operates within clearly defined terms of reference and functional procedures. Please see Sections 14.4, 14.5 and 14.6 entitled "New Nominating Committee", "New Remuneration Committee" and "New Audit Committee" respectively of this Circular.

14.2 Mr Goh Yeow Tin and Mr Yap Boh Pin as New Independent Directors

Guideline 2.4 of the Code of Corporate Governance 2012, which continues to be applicable as at the date of this Circular, states that the independence of any director who has served on the Board beyond nine (9) years from the date of his first appointment should be subject to particularly rigorous review. In doing so, the Board should also take into account the need for progressive refreshing of the Board. The Board should also explain why any such director should be considered independent.

The SGX-ST has announced amendments to the Catalist Rules pursuant to which a person will not be regarded as independent if he has been a director for an aggregate period of more than nine (9) years (whether before or after listing), and his continued appointment as an independent director has not been sought and approved in separate resolutions by (a) all shareholders; and (b) shareholders, excluding the directors and the chief executive officer of the listing applicant, and associates of such directors and chief executive officer. These amendments will apply only as from 1 January 2022 and do not apply to the Company as at the date of this Circular. Instead, the position under the Code of Corporate Governance 2012 as described in the immediately preceding paragraph continues to apply to the Company.

Mr Goh Yeow Tin and Mr Yap Boh Pin are existing Directors, and are proposed to become New Directors upon Completion. Mr Goh Yeow Tin was appointed as a Non-Executive and Independent Director of the Company on 1 October 2007, while Mr Yap Boh Pin was appointed as a Non-Executive and Independent Director of the Company on 1 April 2004. As such, both Mr Goh Yeow Tin and Mr Yap Boh Pin have served on the Board for more than nine (9) years.

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Notwithstanding the foregoing, the New Nominating Committee and the New Board had after rigorous review, consider both Mr Goh Yeow Tin and Mr Yap Boh Pin to be independent based on the following reasons:

14.2.1 Mr Goh Yeow Tin and Mr Yap Boh Pin were appointed as and acted as Independent Directors at a time when the Company was carrying on a different business that was led by a different management, being Mr Ong as Managing Director and Chief Executive Officer and Mr Ong Choon Lui as an Executive Director. Mr Ong and Mr Ong Choon Lui will be stepping down as Executive Directors upon Completion.

The Proposed Acquisition will, upon Completion, result in the Company having a new business and new management. Upon Completion, Mr Lim Siau Hing and Mr Lim Vhe Kai will be appointed as New Executive Directors, and as Executive Chairman and CEO respectively.

Apart from having been Non-Executive Directors of the Company under a different management:

- (a) none of Mr Goh Yeow Tin or Mr Yap Boh Pin had, or will after Completion have, any relationship with the Company, its related companies, its Substantial Shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of their independent business judgment in the best interests of the Company after Completion;
- (b) none of them is or was in the past three (3) financial years employed by the Target or any of its related corporations;
- (c) none of their immediate family members is or was in the past three (3) financial years employed by the Target or its related corporations and whose remuneration was or is determined by the Remuneration Committee;
- (d) none of them or any of their immediate family members, in the current or immediate past financial year, provided to or received from the Target or any of its subsidiaries any significant payments (being, for this purpose, an amount in excess of S\$50,000 aggregated over any financial year) or material services;
- (e) none of them or any of their immediate family members, in the current or immediate past financial year, is or was a Substantial Shareholder, partner (with a stake of 5% or more), director or executive officer of any organisation which has provided to or received from the Target or any of its subsidiaries significant payments (being, for this purpose, an amount in excess of S\$200,000 aggregated over any financial year) or material services from the Target or any of its subsidiaries; and
- (f) none of them is or has been directly associated with a Substantial Shareholder of the Target in the current or immediate past financial year.

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In view of the foregoing, notwithstanding that Mr Goh Yeow Tin and Mr Yap Boh Pin have been Independent Directors for more than nine (9) years, the New Nominating Committee and the New Board believe that they are suitable to remain as Independent Directors upon Completion.

- 14.2.2 Mr Goh Yeow Tin and Mr Yap Boh Pin have substantial business and commercial experience and substantial understanding of the role of, and experience in acting as, independent directors, having been appointed as independent directors of a number of SGX-ST listed companies over the years.

Mr Goh Yeow Tin's current directorships include Sheng Siong Group Ltd. (lead independent director), AsiaPhos Limited (independent director), Vicom Ltd. (independent director) and TLV Holdings Limited (non-executive chairman and independent director), all of which are listed on the SGX-ST. Mr Yap Boh Pin's current directorships include TeleChoice International Limited (independent director), which is listed on the SGX-ST.

In view of the foregoing, the New Nominating Committee and the Board believe that they will be able to exercise independent judgement and demonstrate objectivity in their conduct and deliberations at Board and Board committee meetings.

Mr Goh Yeow Tin and Mr Yap Boh Pin have each abstained from participation in the deliberations on their independence and suitability to continue as Independent Directors of the Company.

14.3 Lead Independent Director

Upon Completion, Mr Lim Siau Hing will be appointed as the Executive Chairman, and Mr Lim Vhe Kai will be appointed as the CEO. Mr Lim Siau Hing is the father of Mr Lim Vhe Kai.

In view of the Executive Chairman not being regarded as independent, in accordance with the Code of Corporate Governance 2018, Mr Goh Yeow Tin will be appointed as the Lead Independent Director upon Completion.

As Lead Independent Director, Mr Goh Yeow Tin will be available to Shareholders where they have concerns for which contact through the normal channels of communication with the Executive Chairman or management are inappropriate or inadequate.

14.4 New Nominating Committee

The New Nominating Committee will comprise Mr Goh Yeow Tin, Mr Yap Boh Pin and Mr Koh Boon Huat. The chairman of the New Nominating Committee is Mr Goh Yeow Tin. The New Nominating Committee has been set up to be responsible for, among other things, the following functions:

- 14.4.1 making recommendations to the New Board on all New Board appointments and re-nomination taking into consideration each Director's contribution and performance and the future requirements of the Enlarged Group, the need for diversity on the New Board and other considerations such as those in Guideline 2.4 of the Code of Corporate Governance 2018;

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- 14.4.2 determining annually whether a Director is independent as defined under the Code of Corporate Governance 2018;
- 14.4.3 reviewing board succession plans for the Directors, in particular, for the Company's Executive Chairman and CEO;
- 14.4.4 ensuring that all members of the New Board submit themselves for re-nomination and re-election at regular intervals. Under the Constitution, at least one-third of the Directors are required to retire from office at every AGM of the Company and every Director must retire from office at least once every three (3) years. A retiring Director is eligible and may be nominated for re-election; and
- 14.4.5 determining whether or not a Director where he has multiple board representations and/or is able to carry out his duties in light of his commitments to other companies.

The New Nominating Committee will also decide on how the New Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the New Board, which addresses how the New Board is to enhance long-term Shareholders' value. The New Board will also implement a process to be carried out by the New Nominating Committee for assessing the effectiveness of the New Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the New Board. Each member of the New Nominating Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director.

The New Nominating Committee will be responsible for the re-nomination of the Directors. The New Nominating Committee may recommend the appointment of any other qualified person as a Director to fill a vacancy or as an addition to the New Board. The Constitution provides that such Director so appointed shall hold office until the next AGM and shall be eligible for re-election. In making its recommendation for the purpose of re-nomination of the Directors, the New Nominating Committee will take into consideration their overall contribution and performance.

In its search, nomination and selection process for new Directors, the new Nominating Committee will:

- (a) identify the competencies required to enable the New Board to fulfil its responsibilities;
- (b) seek external assistance, if the need arises, by approaching relevant institutions such as the Singapore Institute of Directors, search companies or via public advertisements to search for suitable candidates. The search for suitable candidates could also be drawn from the contacts and network of the existing Directors and senior management;
- (c) conduct formal interviews of short-listed candidates to assess suitability and to ensure that the candidates are aware of the expectations and the level of commitment required of them; and
- (d) make recommendations to the New Board for approval.

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Each member of the new Nominating Committee will abstain from voting on any resolutions, making any recommendations and/or participating in any deliberations of the New Nominating Committee in respect of the assessment of his performance or re-nomination as a Director.

Under the Code of Corporate Governance 2018, directors are required to attend and actively participate in Board and board committee meetings, and that directors with multiple board representations must ensure that sufficient time and attention are given to the affairs of the company. As at the Latest Practicable Date, Mr Goh Yeow Tin is an independent director of five (5) companies listed on the SGX-ST (including the Company). The New Nominating Committee and the New Board noted that, although Mr Goh Yeow Tin has multiple board representations on listed companies, he does not hold any executive positions in any company, and has recorded full attendance at Board meetings and Board committee meetings of the Company for FY2015, FY2016 and FY2017. Mr Goh Yeow Tin has also confirmed that he is able to devote sufficient time and attention to the affairs of the Enlarged Group.

Taking into account the foregoing, as well as his extensive experience and understanding of the role as a director of listed companies, and his confirmation referred to above, the New Nominating Committee and the New Board have determined that Mr Goh Yeow Tin will be able to adequately carry out his duties as a New Independent Director. Mr Goh Yeow Tin has abstained from participating in the deliberations on his ability to adequately carry out his duties as an Independent Director.

14.5 New Remuneration Committee

The New Remuneration Committee will comprise Mr Koh Boon Huat, Mr Goh Yeow Tin and Mr Yap Boh Pin. The chairman of the New Remuneration Committee will be Mr Koh Boon Huat. The new Remuneration Committee will be responsible for recommending to the New Board a framework of remuneration for the New Directors and New Executive Officers and key executives, and determine specific remuneration packages for each of the New Executive Directors.

The recommendations of the New Remuneration Committee will be submitted for endorsement by the entire New Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind shall be covered by the New Remuneration Committee. Each member of the New Remuneration Committee will abstain from voting on any resolutions, making recommendations and/or participating in any deliberations of the new Remuneration Committee in respect of his remuneration package.

If necessary, the New Remuneration Committee will seek expert advice within and/or outside the Company on remuneration matters. The New Remuneration Committee will ensure that existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants. The New Remuneration Committee will also perform an annual review of the remuneration packages in order to maintain their attractiveness to retain and motivate the New Directors and New Executive Officers and to align the interest of the New Directors and New Executive Officers with the long-term interest of the Company.

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The total remuneration of the employees who are related to the New Directors will be reviewed annually by the New Remuneration Committee to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. In the event that a member of the New Remuneration Committee is related to the employee under review, he will abstain from such review.

The remuneration paid to employees who are immediate family members of the New Directors will be disclosed in the annual report, following Completion, in the event such remuneration exceeds S\$50,000 for that financial year.

14.6 New Audit Committee

The New Audit Committee will comprise Mr Yap Boh Pin, Mr Goh Yeow Tin and Mr Koh Boon Huat. The chairman of the New Audit Committee is Mr Yap Boh Pin.

The New Audit Committee will assist the New Board in discharging their responsibility to safeguard the assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that management creates and maintains an effective control environment in the Company following Completion. The New Audit Committee will provide a channel of communication between the New Board, the management and the external auditors of the Company on matters relating to audit following Completion.

In particular, the New Audit Committee will meet at least half yearly, following Completion, to discuss and review the following where applicable:

- 14.6.1 assist the New Board in the discharge of its responsibilities on financial reporting matters;
- 14.6.2 review the audit plans and scope of work of the external auditors and internal auditors, including the results of the external and internal auditors' examination and their evaluation of the system of internal accounting controls, their letter to management and the management's response, and monitor the implementation of the internal control recommendations made by the Company's external and internal auditors;
- 14.6.3 review the interim financial results and annual financial statements and the external auditors' report on the annual financial statements, and discuss any significant adjustments, major risk areas, changes in accounting policies and practices, significant financial reporting issues and judgments, compliance with Singapore financial reporting standards as well as compliance with the Catalist Rules and other statutory or regulatory requirements, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of management to ensure the integrity of the financial statements of the Enlarged Group and any announcements relating to the financial performance, where necessary, before submission to the New Board for approval;
- 14.6.4 review the adequacy and effectiveness of the Enlarged Group's risk management and internal control system, including financial, operational, compliance and

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information technology controls (which review can be carried out internally or with the assistance of any competent third parties) and discuss issues and concerns, if any, prior to the incorporation of the New Board's comments in the annual report;

- 14.6.5 review and approve the Enlarged Group's transfer pricing policy and hedging policy (if any), and conduct periodic reviews of the transfer pricing policy and hedging policy, together with the foreign exchange transactions and hedging activities undertaken by the Enlarged Group;
- 14.6.6 monitor the performance of the agreement relating to the indebtedness described in Section 4.23 entitled "Dividend Policy" of the Target Letter and Section 10.2.2(g) entitled "Agreement relating to indebtedness from KTM to Mr Lim Siau Hing and Mr Lim Vhe Kai" of the Target Letter, and in particular, review and confirm that any payment of the Amount Payable (as defined below in Section 4.23.1(d) entitled "Target Group" of the Target Letter) by KTM to Mr Lim Siau Hing and Mr Lim Vhe Kai will not adversely affect the ongoing working capital or liquidity requirements and the financial position of the Enlarged Group;
- 14.6.7 review and ensure co-ordination between the external and internal auditors and the management, including assistance given by the management to the auditors;
- 14.6.8 review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Enlarged Group's operating results or financial position, and the management's response;
- 14.6.9 consider the independence and objectivity of the external auditors, taking into account the non-audit services provided by the external auditors, if any;
- 14.6.10 make recommendations to the New Board on the proposals to the Shareholders with regard to the appointment, re-appointment and removal of external auditors, and approve the remuneration and terms of engagement of the auditors;
- 14.6.11 review, ratify and approve any Interested Person Transactions falling within the scope of Chapter 9 of the Catalist Rules, or any agreement or arrangement with an Interested Person that is not in the ordinary course of business of the Enlarged Group, prior to the Enlarged Group's entry into the transaction, agreement or arrangement;
- 14.6.12 review potential conflict of interests (if any) and set out a framework to resolve or mitigate such potential conflict of interests;
- 14.6.13 review the adequacy of the internal audit function and ensuring that a clear reporting structure is in place between the New Audit Committee and the internal auditors;
- 14.6.14 review the policy and procedures by which staff of the Enlarged Group may, in confidence, raise concerns about possible impropriety in matters of financial reporting and other matters and the adequacy of procedures for independent investigation and appropriate follow-up action in response to such complaints;

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- 14.6.15 conduct annual internal control audits to review the Enlarged Group's internal controls and procedures;
- 14.6.16 undertake such other reviews and projects as may be requested by the New Board, and will report to the New Board its findings from time to time on matters arising and requiring the attention of the New Audit Committee;
- 14.6.17 review the suitability of the Financial Controller, as well as the adequacy of the finance team on an on-going basis;
- 14.6.18 monitor and exercise oversight of the compliance function of the Enlarged Group and, in particular, monitor the rectification of non-compliances of the Target Group's Malaysian and Cambodian subsidiaries as disclosed in Section 4.16.1 entitled "Government Regulations" of the Target Letter, as well as the adequacy and effectiveness of procedures put in place to prevent a recurrence of similar non-compliances;
- 14.6.19 provide oversight of any tax, customs and other material governmental audits, inspections, demands and settlement as well as the engagement and payment of fees to any third party consultant; and
- 14.6.20 generally undertake such other functions and duties as may be required by statute, the Catalist Rules, or by such amendments as may be made thereto from time to time.

In addition, all future transactions with Interested Persons will comply with the requirements of the Catalist Rules. The New Directors will abstain from voting on any contract or arrangement or proposed contract or arrangement in which he has a personal material interest.

Apart from the duties listed above, the New Audit Committee will commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Enlarged Group's operating results and/or financial position.

14.7 Internal Controls

Nexia TS was engaged to conduct an internal control review of the Target Group's key business processes for identifying gaps within the internal control framework of the Target Group. Nexia TS had highlighted certain internal control weaknesses during the course of their review, including the engagement by Callisto Cambodia of a consultant without written agreement or agreement on the fees, certain payments made in cash by Callisto Cambodia in 2017 without any supporting documentation and the practice of Callisto Cambodia routing the payment of funds for company purposes through a senior management employee for convenience. These internal control weaknesses arose from the incident relating to Callisto Cambodia described below.

Sometime in 2016, Callisto Cambodia was subject to separate tax and customs audits and was thereafter required to pay certain tax and customs penalties. Callisto Cambodia did not

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agree with the tax and customs penalties imposed on it and therefore engaged a local consultant in Cambodia to assist in dealing with these penalties.

The tax and customs penalties were subsequently settled for a total amount of around US\$185,000, comprising penalties of around KHR106.1 million (equivalent to and rounded up to around US\$27,000, based on the exchange rate of US\$1: KHR3955), and a total amount of around US\$158,000 paid to the consultant as professional fees for work done in relation to the matter. Both payments were made without any supporting documentation. The payment to the local consultant was paid partly out of the personal Cambodian bank account of Mr Chew Chong Kiat, Callisto Cambodia's director and general manager, from funds originally deposited by Callisto Cambodia into his bank account, as there was an arrangement in place to facilitate the funding of Callisto Cambodia's operations, as Callisto Cambodia's bank signatories required for the withdrawal of funds at the relevant time would not ordinarily be in Cambodia at the same time. This arrangement has ceased since July 2017.

Save for the incident disclosed above, there is no similar transaction involving, or payment made by, any other Target Group Company.

Heng & Partners Law Group, the Cambodian counsel appointed by the Company to advise on the incident disclosed above, has opined that, based on the facts of the incident as presented by Callisto Cambodia, there was no violation of Cambodian laws on the part of Callisto Cambodia or Mr Chew Chong Kiat (who had handled the incident).

The Vendor has executed in favour of the Company the Vendor Undertaking pursuant to which he has agreed to indemnify and keep indemnified the Company and Callisto Cambodia in full against all losses (including all taxes, additional taxes, penalties and interests) that may be suffered, sustained or incurred by the Company and/or Callisto Cambodia arising from the incident described above which are currently not known and/or that may be imposed in the future, excluding the same which has been provided for in the Audited Combined Financial Statements of the Target Group with Independent Auditor's Report for the Financial Years ended 31 December 2015, 2016 and 2017, and the Unaudited Interim Combined Financial Statements of the Target Group with Independent Auditor's Report for the Six-Month Period ended 30 June 2018 as set out in Appendices C and E.

In order to address the internal control weaknesses mentioned above, the Target Group has adopted and implemented the following internal control processes:

- 14.7.1 all tax, customs and other material governmental audits and inspections in Cambodia must be immediately reported to the New Audit Committee and the New Board;
- 14.7.2 the New Executive Director and CEO, Mr Lim Vhe Kai, or in his absence, any other New Executive Director will be directly responsible for handling all such audits and inspections and all dealings with the relevant authorities in Cambodia, to ensure compliance with applicable Cambodian laws;

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- 14.7.3 the engagement of all third party consultants, if any, to assist in dealing with any such audits and inspections, as well as the scope of their work, the fees involved and other material terms, must be approved in advance by the New Audit Committee and will be documented as part of the Target Group's internal procedures; and
- 14.7.4 all appeals and settlements of, and any amounts payable pursuant to, such audits and inspections must be approved in advance by the New Audit Committee.

In relation to the authorisation and disbursement of funds and, in particular, cash, the Target Group has also adopted and implemented the following additional internal control measures:

- (a) The Target Group will ensure that all valid supporting documents and contracts are obtained and verified prior to payment.
- (b) The Target Group will not transfer funds to the personal bank account of any employee whether for operational use or otherwise. All payment requests will be verified and approved in accordance with the approval matrix, subject to the safeguard described in paragraph (c) below. All payment requests will be issued by way of cheques or bank transfers to ensure there is a proper audit trail.
- (c) The Target Group has revised its approval matrix such that: (i) members of the family of Mr Lim Siau Hing will not review and approve the same transaction; and (ii) the Financial Controller will verify that all payment transactions are reviewed and authorised in accordance with the established policies and procedures.
- (d) The Target Group has implemented procedures to monitor the petty cash float and all cash advances given to employees by verifying the purpose of cash usage, conduct of frequent cash count and also ensure that all top-up procedures, petty cash claim procedures and petty cash limits are in accordance with the policies and procedures.

The Target Group has also put in place approval matrices for its key business operations, including the purchase of raw materials, operating expenses and other purchases. The aforementioned key business operations require two (2) authorised signatories, including review by the Financial Controller (or equivalent person(s)). In addition, members of the family of Mr Lim Siau Hing will not approve the same transaction. The approval threshold for these key business operations adopted by the Target Group are as follows:

- (i) where the value of each transaction is less than RM10,000, the transaction will require the prior approval of the head of the relevant Target Group Company and verification and confirmation by the Financial Controller (or equivalent person(s));
- (ii) where the value of each transaction is equal to RM10,000 or more, the transaction will require the prior approval of the COO or Executive Director(s) and verification and confirmation by the Financial Controller (or equivalent person(s)); and
- (iii) for any purchase of fabric, the transaction will require the prior approval of the COO or Executive Director(s) and verification and confirmation by the Financial Controller (or equivalent person(s)) and merchandising manager.

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In addition to the above, the Target Group has also implemented an anti-corruption policy and supplier code of conduct as part of its internal procedures to enhance its existing procedures, including annual evaluation of suppliers and sub-contractors and processes governing the appointment of third party consultants as disclosed above.

Nexia TS has verified that the above internal control processes and measures have been adopted and implemented by the Target Group.

The New Directors noted that no internal control weaknesses have been raised by the Independent Auditor to the Target Group which in their opinion would have a material effect on the financial statements in the course of the audit of the Target Group for FY2015, FY2016, FY2017 and 1H2018. The New Directors also noted that Nexia TS has confirmed that it is satisfied that the management of the Target Group has, as at the Latest Practicable Date, adequately addressed all material points raised in relation to the Target Group's internal control weaknesses. Following Completion, the New Audit Committee will monitor and review the implementation of the recommendations of the Independent Auditor to the Target Group and Nexia TS for any outstanding non-material internal control weaknesses and continually review the effectiveness of the internal control procedures within the Target Group and maintain an internal audit function either through outsourcing or hiring additional suitably qualified and experienced internal audit staff to ensure adequacy and sufficiency of internal control procedures.

The New Board, after making all reasonable enquiries and to the best of its knowledge and belief, and with the concurrence of the New Audit Committee, is of the opinion that, after the implementation of the internal control processes and measures recommended by Nexia TS including those described above, the internal controls of the Target Group, including the financial, operational, compliance and information technology controls and risks management systems, are adequate and effective.

14.8 Information Disclosure

Following Completion, the Enlarged Group will continue to implement a policy of providing full disclosure of material corporate information as commercially appropriate through press announcements, press releases and Shareholders' circulars as well as through the statutory interim and annual financial results announcements.

15. SELECTED FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following selected financial information of the Enlarged Group should be read in conjunction with the full text of this Circular, **Appendix C** entitled "Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Financial Years ended 31 December 2015, 2016 and 2017", **Appendix E** entitled "Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Six-Month Period ended 30 June 2018" and **Appendix F** entitled "Report on Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group for the Financial Year ended 31 December 2017 and the Six-Month Period ended 30 June 2018", and Section 6 entitled "Management's Discussion and Analysis of Results of Operations and Financial Position of the Target Group" in the Target Letter.

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15.1 Unaudited Pro Forma Consolidated Statements of Comprehensive Income

RM'000	FY2017	1H2018
Revenue	218,301	106,390
Cost of sales	(182,459)	(91,687)
Gross profit	35,842	14,703
Other items of income		
Interest income	251	117
Other income	1,492	75
Administrative and general expenses	(51,468)	(8,947)
Selling and marketing expenses	(7,272)	(3,395)
Finance costs	(1,522)	(860)
(Loss)/Profit before tax	(22,677)	1,693
Income tax expense	(3,877)	(934)
(Loss)/Profit for the year/period	(26,554)	759
Other comprehensive income		
<i>Item that may be reclassified subsequent to profit or loss:</i>		
Foreign currency translation	(1,222)	(78)
Total comprehensive income for the year/period	(27,776)	681
Earnings per Consolidated Share (RM)		
Basic and diluted ⁽¹⁾	(0.156)	0.004

Note:

- (1) The earnings per Consolidated Share for FY2017 and 1H2018 have been computed based on the (loss)/profit and the weighted average number of Consolidated Shares for the year/period.

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15.2 Unaudited Pro forma Consolidated Statements of Financial Position

RM'000	As at 31 December 2017	As at 30 June 2018
Assets		
Non-current asset		
Property, plant and equipment	44,979	50,476
Current assets		
Inventories	30,526	70,640
Trade and other receivables	51,304	42,882
Other current assets	1,320	1,261
Cash and short-term deposits	12,484	11,527
	95,634	126,310
Total assets	140,613	176,786
Equity and liabilities		
Current liabilities		
Trade and other payables	48,071	66,776
Borrowings	40,210	51,432
Tax payable	1,712	1,630
	89,993	119,838
Net current assets	5,641	6,472
Non-current liabilities		
Borrowings	9,910	15,624
Deferred tax liabilities	1,324	1,005
Total non-current liabilities	11,234	16,629
Total liabilities	101,227	136,467
Net assets	39,386	40,319
Equity		
Share capital	36,842	49,485
Accumulated losses	(99)	(11,731)
Foreign currency translation reserve	2,643	2,565
Total equity	39,386	40,319
Total equity and liabilities	140,613	176,786

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16. RISK FACTORS

Shareholders should carefully evaluate each of the following risks and all of the other information set out in this Circular before deciding on how to vote on the resolutions in respect of the Proposed Transactions, as the principal business of the Company after Completion will be the Target Business.

Some of the following considerations relate principally to the industry in which the Target Group operates and the Target Business in general. Other considerations relate principally to general social, economic, political and regulatory conditions in Malaysia and/or Cambodia, the securities market and ownership of the Shares after Completion, including possible future dilution in the value of the Shares.

Shareholders should also note that certain of the statements set out below constitute “forward-looking statements” that involve risks and uncertainties. If any of the following risk factors and uncertainties develops into actual events, the business, operations, financial condition, results of operations, profitability, cash flows and/or prospects of the Enlarged Group (collectively referred to in this Section 16 as “**Business**”) may be, directly or indirectly, materially and adversely affected. In such circumstances, the trading price of the Shares could decline and Shareholders may lose all or part of their investment.

The New Directors have represented to the Board that, to the best of their belief and knowledge, all risk factors which are material to Shareholders in making an informed judgement on the Target Group and the Proposed Acquisition have been set out below.

Save as disclosed, to the best of the Board’s knowledge and belief, all risk factors which are material to Shareholders in making an informed judgement on the Target Group, the Proposed Transactions and/or the Enlarged Group have been set out in this Circular.

16.1 Risks relating to the Target Group, its business and industry

The Target Group’s financial performance and results of operations could be adversely affected by global trade policies and trade protection measures

The apparel manufacturing business is global in nature. The Target Group’s sales to its customers may be affected by adverse changes and developments in global trade policies and trade protection measures, such as the imposition of new trade barriers, sanctions, boycotts and other measures, which are beyond the Target Group’s control.

The impact of bilateral or multilateral agreements intended to liberalise global trade could significantly affect apparel manufacturers such as the Target Group. Member nations of the World Trade Organisation phased out textile and apparel quotas as of 1 January 2005. However, new quotas, higher tariffs or other trade barriers may be introduced or imposed that affect the countries in which the Target Group carries on its operations (particularly Malaysia and Cambodia) and/or the countries or regions to which the Target Group sells its products (particularly the EU, US and Canada). If any such event were to occur, the Business may be materially and adversely affected.

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Please also see further the risk factors “The Target Group may be affected by significant policy changes in the US” and “Risks relating to the Target Group’s operations in Cambodia – The Target Group’s apparel products manufactured in Cambodia are susceptible to changes in the preferential tariffs that Cambodia currently enjoys”.

The Target Group may be affected by political and economic uncertainties in the EU

The Target Group generates a substantial percentage of its revenue from its export of apparel products to the EU. In FY2015, FY2016, FY2017 and 1H2018, the Target Group’s sales to customers in the EU accounted for approximately 43.3%, 44.9%, 51.8% and 37.8% respectively of its total revenue.

On 29 March 2017, the UK gave formal notice of leaving the EU. The UK leaving the EU has created political and economic uncertainty which may last for a period of time. The Target Group’s sales to the EU could be affected during this period of uncertainty.

Whilst the Target Group continued to enjoy strong sales to customers in the EU in FY2017, there are different ways in which the Target Group’s business may be affected in future, and only some can be identified as at the Latest Practicable Date. The eventual withdrawal of the UK from the EU may cause the possible break-up of the UK and volatility in global financial markets. The volatility could cause a slowdown in economic activity in the UK, the EU or globally, which may materially and adversely affect the Business.

In addition, the Target Group’s business could be adversely affected by new trade agreements between the UK and other countries, and by the possible imposition of trade or other regulatory barriers in the UK. These possible negative impacts and others resulting from the UK’s eventual withdrawal from the EU may materially and adversely affect the Business.

Please also see further the risk factor “Risks relating to the Target Group’s operations in Cambodia – The Target Group’s apparel products manufactured in Cambodia are susceptible to changes in the preferential tariffs that Cambodia currently enjoys”.

The Target Group may be affected by significant policy changes in the US

The Target Group generates a substantial percentage of its revenue from its export of apparel products to the US. In FY2015, FY2016, FY2017 and 1H2018, the Target Group’s sales to customers in the US accounted for approximately 45.6%, 40.3%, 30.9% and 45.9% respectively of its total revenue.

The current administration of the president of the US, Donald Trump, has made substantial changes to domestic and international policies since he became president of the US in January 2017. In particular, the US has imposed and/or threatened to impose tariffs on a range of goods imported into the US from certain regions or countries, including in particular the PRC. This has led to retaliatory and/or the threat of retaliatory measures being adopted by the PRC and other relevant countries. The fear of a potential trade war has led to volatility in the financial markets.

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The Trump administration may continue to adopt and implement further changes to the domestic and international policies of the US. The nature and extent of such changes are difficult to predict, but may bring uncertainty to the US and/or global economy and/or political environment. This may in turn materially and adversely affect the Business.

The Target Group's business is dependent on the consumer spending level mainly in the US and the EU

The Target Group generates a substantial percentage of its revenue from its export of apparel products to customers in the EU and the US. In FY2015, FY2016, FY2017 and 1H2018, the Target Group's sales to customers in the EU and US collectively accounted for approximately 88.9% and 85.2%, 82.8% and 83.7% of its total revenue respectively.

In view of the foregoing, the Target Group's results of operations and profitability are dependent on the consumer demand and the macroeconomic conditions in the EU (and the UK, when the UK eventually withdraws from the EU) and the US. There are many factors affecting the level of consumer spending that are beyond the Target Group's control, including disposable income, interest rates, recession, inflation, political, taxation, stock market performance, unemployment level and general consumer confidence. Any deterioration of the general economic conditions in the EU (and the UK, when the UK eventually withdraws from the EU) and the US may result in the slowing down of or decrease in orders from the Target Group's customers in the EU (and the UK, when the UK eventually withdraws from the EU) and the US, and potential delay and/or default in payment by customers.

There is no assurance that the Target Group can continue to expand its customer base in the EU (and the UK, when the UK eventually withdraws from the EU) and the US and generate significant revenue from exporting to the EU (and the UK, when the UK eventually withdraws from the EU) and the US. It is also possible that the Target Group may not be able to maintain the existing level of purchase orders from its customers in the EU (and the UK, when the UK eventually withdraws from the EU) and the US.

If any or a combination of such events were to occur, this could materially and adversely affect the Business.

The Target Group's success depends on its customers' ability to market and sell their products developed and/or manufactured by the Target Group

The Target Group's customers are retailers who sell their apparel products under their own brands. Consequently, the Target Group's sales and revenue are directly affected by the demand for the products of the Target Group's customers by end consumers in the countries in which its customers sell their apparel products. Demand for the apparel products of the Target Group's customers may be affected by a number of factors which are not related to the Target Group or its apparel products. These may be macro-environmental factors such as global fashion trends and market direction and the political, economic and social stability and demographic profile in the relevant countries. These may also be factors specific to the Target Group's customers, such as the customer's reputation, market strategies and competitiveness.

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If demand for the apparel products of the Target Group's major customers were to reduce for any reason whatsoever, the Target Group's customers may decrease the volume and/or purchase price of their purchase orders, which could materially and adversely affect the Business.

The Target Group derives a substantial portion of its revenue from a limited number of major customers

A majority of the Target Group's revenue is derived from a limited number of major customers. In FY2015, FY2016, FY2017 and 1H2018, the sales to the Target Group's largest customer, Matalan Retail Limited, accounted for approximately 39.1%, 36.4%, 38.7% and 31.0% of its revenue respectively, and the sales to the Target Group's five (5) largest customers collectively accounted for approximately 90.1%, 86.9%, 80.5% and 83.7% of its revenue respectively. See further Section 4.8 entitled "Major Customers" of the Target Letter for more information on the major customers of the Target Group.

Further, as is common in the apparel industry, the Target Group does not enter into long-term agreements with its customers. Instead, purchases from customers are made on a purchase order basis. As such, there is no long-term commitment on the part of customers to purchase from the Target Group.

The Target Group's concentration of revenue from a limited number of major customers, coupled with the lack of long-term purchase commitment from such major customers, exposes it to the risks of substantial losses in sales and revenue if any of them stops engaging in business with the Target Group or significantly reduces orders to the Target Group. Specifically, any of the following events, among others, may cause material fluctuations or declines in the Target Group's sales and revenue and have a material and adverse effect on the Business:

- the reduction, delay or cancellation of purchase orders from one or more of the Target Group's major customers;
- the reduction in the selling price of the Target Group's products to its major customers;
- the rejection of products manufactured by the Target Group by one or more of its major customers due to manufacturing defects or other reasons;
- the decision by one or more of the Target Group's major customers to select its competitors to supply products;
- the loss of one or more of the Target Group's major customers, and its failure to identify and obtain new orders to replace the lost sales volume at satisfactory pricing or other terms; and/or
- the failure or inability of any of the Target Group's major customers to make timely payment for its products.

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Whilst the Target Group has not experienced any of the foregoing events which had a material impact on the Business as at the Latest Practicable Date, and aims to maintain and build upon its strong relationship with its major customers, there is no assurance that it will be able to continue doing so in future. Any failure to maintain its relationship with its customers or to expand its customer base may materially and adversely affect the Business.

The Target Group may be unable to keep pace with customer demands and preferences for product design, research and development and manufacturing of its products

The Target Group adopts a co-creation business model whereby it is not just an apparel manufacturer but is intimately involved in the product initiation phase in close collaboration with its customers. Please see further Section 4.3 entitled “Co-creation business model” of the Target Letter.

During the product initiation phase, the Target Group provides valuable input to its customers on product concept and design, raw material development and sourcing and apparel construction technology and methods. In order to successfully implement such a co-creation business model in collaboration with its customers, it is critical for the Target Group to be able to keep pace with and anticipate fashion trends, market direction and consumer preferences in the different key markets to which its products are sold (i.e. the EU, US and Canada).

The apparel market is affected by rapidly changing fashion trend, market direction and consumer preferences as well as changes in consumers’ spending patterns, which are often difficult to predict. The apparel market may also differ from region to region.

Consequently, the Target Group’s success depends on its ability to identify these factors accurately and take them into account in the implementation of its co-creation business model. This requires a combination of various elements, including but not limited to, accurate analysis and prediction of market trends, timely collection of consumer feedback, strong research and development capability and flexible and cost-effective production.

If the Target Group is unable to anticipate, identify or timely react to changing fashion trend, market direction or consumer preferences or consumers’ spending patterns, or if the Target Group misjudges the market for its products, this may materially and adversely affect the Business.

The Target Group depends on a stable and adequate supply of high quality raw materials that are subject to price volatility and other risks

In FY2015, FY2016, FY2017 and 1H2018, raw materials accounted for approximately 74.7%, 72.8%, 73.3% and 76.2% respectively of the Target Group’s cost of sales, where fabric is the key raw material used by the Target Group. As a result, the Target Group’s production volume and production costs depend on its ability to source high quality raw materials at competitive prices. In this regard, the Target Group has not entered into any long-term supply agreements with its suppliers that will ensure a stable supply of the key

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raw materials at competitive prices. The Target Group typically places an order for the purchase of raw materials for a particular product only after its customer has placed a firm order for the product.

If the Target Group is unable to purchase fabrics of the types, in the quantities, of high quality or at a favourable price that it requires for its production needs, its production volume, quality of apparel products and profitability may be adversely affected.

Fabrics used in the Target Group's production are also subject to price volatility caused by external conditions, such as market supply and demand, commodity price fluctuations, currency fluctuations, fluctuations in transportation costs, changes in governmental policies and natural disasters. Specifically, fabrics are made primarily of cotton, polyester and rayon. Market prices of these raw materials may be affected by, among other things, weather conditions and the cyclical and volatility of prices of crude oil. There was no significant fluctuation in the prices of its key raw materials during FY2015, FY2016, FY2017 and 1H2018. However, the Target Group's key raw materials have in the past experienced fluctuations in prices. Even though the Target Group had during those times taken certain measures, including the purchase of raw materials in advance, to mitigate its risks against price fluctuations of its raw materials, there is no assurance that its raw material costs will not increase significantly in the future. If the Target Group is unable to find a comparable source of supply of raw materials at competitive prices or pass on the increased raw materials costs to its customers due to competitive market pressure, the Business may be materially and adversely affected.

The Target Group may face labour shortages and increases in direct labour cost

The Target Group's production activities are labour-intensive and dependent on the availability of a large number of skilled and semi-skilled workers. In FY2015, FY2016, FY2017 and 1H2018, the Target Group's direct labour costs accounted for approximately 15.5%, 14.9%, 12.8% and 14.9% of its total cost of sales, respectively.

Shortage of labour and/or inefficient labour management may result in disruption of the Target Group's business operations. This may in turn have a material and adverse effect on the Business.

In addition, direct labour costs in Malaysia and Cambodia where the Target Group operates have been increasing in recent years and could potentially continue to increase. In Peninsula Malaysia, where the Target Group operates the KTM Manufacturing Facility, the minimum wage is reviewed every few years and was increased from RM900 to RM1,000 in FY2016, and will be further increased to RM1,050 in FY2019. In Cambodia, where the Target Group operates the Cambodian Manufacturing Facilities, the minimum wage was raised from US\$153 in FY2017 to US\$170 in FY2018. In addition, any increase in competition for skilled or semi-skilled workers may also increase staff costs. The direct labour costs of the Target Group had increased from around RM17.4 million in FY2015, to around RM19.3 million and RM23.4 million in FY2016 and FY2017 respectively, due in part to the general rise in wages as well as an increase in the number of workers during the relevant financial years.

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If staff costs in these regions continue to increase, the Target Group's production costs will increase. The Target Group may not be able to pass on these increased costs to its customers by increasing the selling prices of its products in order to maintain competitiveness. In such circumstances, the Target Group's profit margin may decrease. This may in turn have a material and adverse effect on the Business.

The Target Group may face disruption of operations at its manufacturing facilities

As at the Latest Practicable Date, the Target Group operates the KTM Manufacturing Facility in Malaysia, and the two (2) Cambodian Manufacturing Facilities in Cambodia.

In Cambodia, the Cambodian Manufacturing Facilities are leased properties on short term leases. These leases will expire on 31 December 2024. See further Section 4.14 entitled "Properties and Fixed Assets" of the Target Letter for more information on these properties. These leases are renewable upon expiration. The Target Group's ability to renew the existing leases upon their expiry is crucial to its manufacturing operations and profitability. If the Target Group is unable to successfully negotiate a renewal of any of these leases, it will be forced to relocate its operations. This may entail the Target Group incurring substantial relocation costs and also disrupt its manufacturing operations in Cambodia. However, the Target Group currently does not foresee any difficulties in renewing the leases for the Cambodian Manufacturing Facilities as the Target Group has over the years maintained a good relationship with the landlords.

The Target Group may also be exposed to risks of strikes and work stoppages by its workers, in particular, at the Cambodian Manufacturing Facilities. The Target Group had in the past experienced strikes by its workers in Cambodia. See further the risk factor "The Target Group's business in Cambodia may be subject to labour unrest in Cambodia which may adversely affect its Business". Whilst these strikes were short-lived and successfully resolved, there can be no assurance that the Target Group will not face prolonged strikes or work stoppages in the future.

Natural disasters, acts of God, or other unanticipated catastrophic events, including storms, fires, explosions, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land on which the Target Group's manufacturing facilities are situated, may have a major impact on the Target Group's ability to continue its manufacturing activities and business operations.

Any disruption to the Target Group's manufacturing operations due to the occurrence of any of the events described above may materially and adversely affect the Business.

The Target Group faces intense competition from existing industry players and new entrants

The global apparel industry is highly competitive and the Target Group faces strong competition from both existing industry players and new entrants to the market. Similar to the Target Group, apart from manufacturing capabilities, its competitors may endeavor to increase their market share through measures such as continued research and development efforts, engaging in product design, optimised product process and marketing campaigns. Some of its competitors may possess longer operating histories and have more

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financial, technical, marketing and other resources, which enable them to compete more effectively than the Target Group.

There is no assurance that the Target Group will be able to compete successfully with existing industry players and new market entrants. Intense competitive pressure may also have an adverse impact on the demand for and pricing of the Target Group's products, which in turn affects its growth and market share. If the Target Group fails to compete effectively, it may be unable to retain its existing customers or expand its customer base which would have a material adverse effect on the Business.

The Target Group is dependent on its good reputation

The Target Group is dependent on its reputation in conducting its business. Negative publicity arising from, but not limited to, product defects, failure to maintain the quality of its products, failure to deliver its products on a timely basis, non-compliance with relevant laws and regulations, and non-adherence to certain level of social responsibility and sustainability standards, are all potential threats to its reputation. If the Target Group fails to promote and protect its reputation, it may not be able to maintain its competitiveness, sales volume and pricing, or successfully expand into new markets and attract new customers. As a result, the Business may be materially and adversely affected.

The Target Group is dependent on its ability to retain key personnel

The success of the Target Group depends, to a significant extent, on the capability, expertise and continued services of its senior management team, including in particular, Mr Lim Siau Hing, Mr Lim Vhe Kai and Mr Chew Chong Kiat. Mr Lim Siau Hing founded the Target Group and will be a New Executive Director and Executive Chairman of the Company upon Completion. Mr Lim Vhe Kai and Mr Chew Chong Kiat have been with the Target Group since 2002 and have been working closely together as a team to build up and expand the apparel manufacturing business of the Target Group. Mr Lim Vhe Kai will be a New Executive Director and CEO, and Mr Chew Chong Kiat will be a New Executive Officer and COO, of the Company upon Completion.

The Target Group relies on the expertise and experience of its key executives in developing business strategies, product development, increasing efficiency of its business operations and maintaining relationships with customers. Even though Mr Lim Siau Hing and Mr Lim Vhe Kai have entered into the service agreements with the Company for an initial term of three (3) years, there is no assurance that the Target Group will be successful in retaining them. If the Target Group loses the services of any of its key executives, it may not be able to find a suitable replacement with comparable knowledge and experience on a timely basis, and this may materially and adversely affect the Business.

The Target Group's success also depends on its ability to attract and retain talented personnel. The Target Group may not be able to attract or retain all the key personnel it needs. The Target Group may also need to offer better remuneration and other benefits to attract and retain key personnel. There is no assurance that it will have the resources to fully achieve its staffing needs or that its costs and expenses will not increase significantly as a result of increased talent acquisition and retention cost. The Target Group's failure to attract and retain competent personnel, and any increase in staffing costs to retain such

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personnel, may have a negative impact on its ability to maintain its competitive position and to grow its business. If any of such events were to occur, the Business may be materially and adversely affected.

The Target Group is subject to the credit risks of its customers

The Target Group's financial position and profitability are dependent on the creditworthiness of its customers and their ability to settle payment in a timely manner. Currently, the Target Group grants credit terms to its customers ranging from 30 days to 90 days, depending on, among other things, the customer involved and the size and nature of the order.

In FY2015, FY2016, FY2017 and 1H2018, the Target Group's trade receivables (after provisions for doubtful receivables) were around RM15.0 million, RM19.0 million, RM47.1 million and RM38.7 million respectively, while its average trade receivables turnover days were 43 days, 39 days, 55 days and 74 days respectively. The Target Group did not experience material loss on customer receivables or make material provisions for doubtful receivables in FY2015, FY2016, FY2017 and 1H2018, save that the provisions for doubtful receivables charged to profit or loss in FY2016 and 1H2018 were RM148,000 and RM12,000 respectively, and bad debt written off in FY2017 and 1H2018 was RM27,000 and RM46,000 respectively. The bad debt written off in FY2017 was in relation to amounts due from a past customer since 2004 and the bad debt written off in 1H2018 was due to failure to claim costs incurred from making samples for its customers, both of which are non-trade in nature. None of the bad debts written off in FY2017 and 1H2018 was in relation to trade receivables from its major customers. In addition, the Target Group has purchased trade credit insurance against any loss arising from the inability of certain specific major customers to make payment to the Target Group when due.

However, there is no assurance that it will be able to collect its trade debts in full or at all or within a reasonable period of time, whether due to an industry or economic slow-down, an individual customer's deteriorating financial condition or otherwise. There is also no assurance that the trade credit insurance purchased by the Target Group will be sufficient to cover its trade receivables due from the relevant major customers.

The occurrence of any of the events described above may result in the Target Group having to make allowance for impairment losses on its trade receivables and adversely affect its cash flow, resulting in a material and adverse effect on the Business.

The Target Group may encounter product quality issues and may be exposed to product liability claims

The Target Group has from time to time encountered product quality issues and complaints from its customers. Such issues and complaints may, for instance, relate to the measurements of the apparel products not meeting the customers' requirements or not matching with their product labelling requirements, and labels on packaging not being consistent with the apparel products therein. Customers who receive products that are defective or that do not meet their specifications are entitled to claim for compensation from the Target Group. In FY2015, FY2016, FY2017 and 1H2018, such compensation paid by the Target Group has not been material.

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The Target Group is also exposed to potential product liability claims for defective products. A successful product liability claim against the Target Group may result in it having to pay substantial monetary damages. Product liability claims against the Target Group, whether or not successful, are costly and time-consuming to defend.

While the Target Group has taken measures to reduce the risks of defective products, there is no assurance that product defects will not occur in the future. Although the Target Group has taken out product liability insurance, there is also no assurance that such product liability insurance will cover all compensation that the Target Group may be liable for. Further, compensation payments and product liability claims, if brought against the Target Group may, with or without merit, result in the diversion of financial and management resources, significant adverse publicity against and damage to the reputation of the Target Group, and may have a material adverse effect on the marketability of its products and its reputation. If any of such events were to occur, the Business may be materially and adversely affected.

The Target Group is subject to risks in relation to transportation services

The Target Group's apparel products are exported to the EU, US and Canada, and typically adopts "Free on Board" as the international trade term. The Target Group arranges for delivery of products to its customers' designated delivery point either through its own delivery team or through third-party logistics services providers. Delivery disruptions to transport operators may occur due to various reasons beyond its control, including transportation bottlenecks, typhoon, flood, earthquakes, dense haze and other natural disasters and labour strikes, and could lead to delayed or lost deliveries. In addition, the Target Group's products may face the risk of theft or damage due to any poor handling by itself or the logistics service providers. As at the Latest Practicable Date, the Target Group has not experienced any of the foregoing incidents which had a material impact on the Business. However, if the Target Group's apparel products are not delivered to customers' designated delivery points on time, or are damaged or lost during delivery, the Target Group may have to pay compensation to the relevant parties and could further lose its customers, and its reputation may be affected by the negative publicity. The occurrence of any of such events may materially and adversely affect the Business.

The Target Group may fail to comply with applicable laws and regulations in the jurisdictions where it operates

The Target Group's business requires compliance with many laws and regulations in the jurisdictions where it operates (being Malaysia and Cambodia), including without limitation, labour and employment, tax, environmental, anti-bribery laws and regulations, trade laws and customs, consumer protection and zoning and occupancy laws, and laws and regulations that regulate apparel manufacturers generally. See further Section 4.16 entitled "Licences, Permits and Government Regulations" of the Target Letter for more information. In addition, in the future, there may be new legal or regulatory requirements or changes in the interpretation of applicable requirements, which could increase the complexity of the regulatory environment in which it operates and the related costs of compliance.

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The Target Group did not comply with certain requirements under Malaysian and Cambodian laws and regulations in the conduct of their business and operations in Malaysia and Cambodia respectively. Please see Section 4.16.1 entitled “Government Regulations” of the Target Letter for details of these non-compliances and the potential fines and other penalties to which the Target Group may be subject, as well as the indemnity provided by the Vendor in respect of such non-compliances.

If the Target Group fails to comply with existing or new legal or regulatory requirements or changes in the interpretations of applicable requirements in the future, it could be subject to liabilities, including monetary damages and fines, which could impact its production capabilities, result in suspension of its business operations and have a material adverse effect on the Business.

The Target Group is subject to various licensing requirements

The Target Group holds various licences and permits issued by various government authorities and regulatory agencies in the countries in which it operates. Such licences and permits are essential for the conduct of the Target Group’s business. See further Section 4.16 entitled “Licences, Permits and Government Regulations” of the Target Letter for more information.

These licences and permits are generally subject to conditions which are either stipulated in the licences and permits or under the particular laws and/or regulations. In addition, some of these licences and permits are subject to periodic assessment and renewal by the relevant authorities to ensure that the Target Group’s operations comply with the conditions thereof and all relevant laws and regulations.

Any breach or material non-compliance with the conditions of the licences and permits and/or the relevant laws or regulations may result in suspension, revocation or termination of the relevant licences and permits, financial penalties and/or cessation of the Target Group’s operations. This may in turn materially and adversely affect the Business.

In addition, there is no assurance that the Target Group will be able to renew all necessary licences and permits in the future in a timely manner or at all. Any failure to secure renewal, or loss, of a required licence or permit may materially and adversely affect the Business.

As at the Latest Practicable Date, the Target Group has not experienced any of the foregoing incidents which had a material impact on the Business.

The Target Group may fail to comply with various customer-imposed guidelines

The Target Group is required to comply with a variety of guidelines imposed by its customers relating to, among other things, product safety, health and environmental conditions. Some of these guidelines are imposed as a result of laws and regulations of its customers’ respective home countries to which the Target Group’s apparel products are exported.

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For instance, in relation to the Target Group's apparel products that are exported to the US, the Target Group is required to comply with customers' guidelines and/or applicable US laws and regulations that include the following:

- The Target Group is subject to product labelling requirements, which require apparel products to contain labelling on the fiber content, the country of origin, the manufacturer or dealer identity, and the care instructions.
- The Target Group faces strict guidelines from its customers in relation to infants' and children's apparels, including the requirement to conduct 100% needle checks on all infants' and children's apparels.
- The Target Group is required to conduct laboratory testing on its raw materials and products to determine their chemical composition, as certain chemicals are prohibited in specific states in the US.
- The Target Group is required to implement certain security measures and best practices, and is regularly subject to audit checks, under the Customs-Trade Partnership Against Terrorism programme. This is a programme initiated by the US Border and Customs Protection to ensure the security of the Target Group's US customers' supply chain with respect to terrorism. See further Section 4.22 entitled "Awards and Certifications" of the Target Letter for more information.

While the Target Group has not encountered any instances of non-compliance with its customers' guidelines and/or applicable laws and regulations in the relevant jurisdictions in the past which had a material impact on the Business, there is no assurance that it will continue to be able to ensure compliance.

The Target Group is also required by its customers to implement an internal quality assurance system to perform various inspections over the course of the entire manufacturing process. The Target Group has implemented quality control measures at each stage of the manufacturing process, from raw materials procurement, production to final inspection and/or audit checks conducted by either the quality assurance team of the Target Group or the customers prior to being loaded for shipment to customers, to ensure that the apparel products manufactured meet the requirements and standards of its customers. The New Directors confirm that there has not been any incident of material adverse findings being raised by the Target Group's customers during the final inspection and/or audit checks. Please refer to Section 4.5.6 entitled "Final Quality Audit" of the Target Letter. However, there is no assurance that its current quality assurance system will continue to be effective. Any significant failure or deterioration of its quality assurance system may seriously compromise its product quality and have a material adverse effect on its reputation in the market among its existing or prospective customers.

The occurrence of any of such events may lead to reduced orders or loss of customers in the future, and in turn have a material and adverse effect on the Business.

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The Target Group may fail to protect the intellectual property and brands of its customers

The Target Group manufactures its products for customers who sell apparel products under their own brands. It is critical for the Target Group to be able to protect the intellectual property and brands of its customers. There is no assurance that the designs, trademarks and other intellectual property rights of the Target Group's customers that it has access to during the manufacturing process will not be misappropriated despite the precautions that it takes to protect these rights. If the Target Group's policies and precautions taken do not adequately safeguard its customers' intellectual property rights, it may lose existing customers and have difficulties in attracting new customers. In the event of any material claims or litigation, with or without merits, the Target Group may have to divert financial and management resources to defend such legal proceedings. The occurrence of any of the above events may have a material adverse effect on the Business.

As at the Latest Practicable Date, the Target Group has not experienced any of the foregoing incidents which had a material impact on the Business.

The Target Group's business is capital intensive and may require additional funding for future growth

The Target Group operates in a capital intensive industry that requires substantial capital and other long-term expenditures, including expenditures for the purchase of machinery and equipment. To the extent that it expands or adds new manufacturing facilities, it expects to fund the related financial commitments and other capital and operation expenses from a combination of cash on hand, cash generated from operations and banking facilities. There is no assurance that the Target Group will be able to generate sufficient cash from its operations or obtain the necessary financing or that such financing will be at interest rates and on other terms that are reasonable to it or consistent with its expectations. To the extent the Target Group cannot finance its expansion at reasonable rates or at all in the future, this may materially and adversely affect the Business.

The Target Group is subject to seasonal fluctuations

The operating results of the Target Group vary due to the seasonality of its products and are historically stronger in the second half of the year. This seasonality fluctuation results primarily from the higher demands from its customers towards the fourth quarter of each calendar year due to the tendency of consumers to increase consumption during the period leading to holidays such as Thanksgiving Day, Christmas Day and New Year. This seasonality fluctuation may affect the Target Group's sales revenue and utilisation rate of its manufacturing facilities. As a result, comparison between the different periods within a single financial year may not be meaningful and its financial performance during any particular quarter or half year should not be taken as an indication of its financial performance for the entire financial year.

The Target Group may be involved in legal or other proceedings arising out of its operations

The Target Group may be involved from time to time in disputes with various parties arising from its business operations, including but not limited to its customers, suppliers,

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employees, logistics service providers, insurers and bankers. If the Target Group is unable to amicably resolve such disputes, this may lead to legal or other proceedings, which may result in the diversion of financial and management resources to defend the proceedings, payment of monetary damages and damage to its reputation.

In addition, the Target Group may encounter additional compliance issues in the course of its operations, which may subject it to administrative proceedings and unfavourable results, and result in liabilities and delays relating to its production or product launch schedules.

There is no assurance as to the outcome of such legal, administrative or other proceedings. Any negative outcome may materially and adversely affect the Business.

The Target Group is exposed to translation risks related to foreign exchange rate fluctuations

The Target Group is subject to translation risks as its combined financial statements are reported in RM while the financial statements of the Target Group subsidiaries are reported in their respective functional currencies, which are primarily RM and US\$. The value of the respective reporting currencies may be affected by, among other things, changes in the political, social and economic conditions in the relevant countries.

The Target Group currently does not have any formal policy for hedging against foreign exchange exposure. However, the Target Group will continue to monitor its foreign exchange exposure and may employ forward currency contracts to manage its foreign exchange exposure should the need arise.

The Target Group's insurance coverage may not be adequate to cover all the risks related to its business and operations

The Target Group maintains insurance policies covering various risks including, among others, product liability, damage to and/or loss of goods in transit, trade credit extended to customers, loss and/or damage due to fire, theft and burglary, consequential loss, motor vehicle and personal accident.

During the course of the Target Group's operations, it may face various claims and disputes against liabilities that are not insured adequately, or at all, or liabilities that cannot be insured. While the New Directors believe that the Target Group has adequately insured itself against key major risks, there can be no assurance that the Target Group's existing insurance policies will be sufficient to cover all of its potential losses or risks associated with its business and operations. In the event that its insurance coverage is insufficient to indemnify it against such losses or risks, the Business may be materially and adversely affected.

The Target Group may face challenges in the course of expanding its business upstream into the knitting, dyeing, finishing and printing of fabric

The Target Group is currently expanding its business upstream into the knitting, dyeing, finishing and printing of fabric. The construction of the New Fabric Dyeing Facility is expected to be completed, and operations are expected to commence, sometime towards

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the end of December 2018 or January 2019. See further Section 7.4.1 entitled “Expansion upstream into the knitting, dyeing, finishing and printing of fabric” of the Target Letter.

The Target Group’s main raw material used in the apparel manufacturing business is fabric, and it has, in the past, purchased all of its fabric required from third party suppliers. The knitting, dyeing, finishing and printing of fabric is expected to provide the Target Group with better control over its supply of fabric and reduce the Target Group’s reliance on third party fabric suppliers. However, the Target Group may face risks and challenges associated with starting a new business area and it may potentially take time before seeing the full benefits of the upstream expansion.

Terrorist activities in the ASEAN region could destabilise the affected countries

The Target Group operates mainly in the Association of South-East Asian Nations (“**ASEAN**”) region, in particular, Malaysia. Terrorist activities in the ASEAN region could destabilise the affected countries and increase internal divisions within the relevant governments while they evaluate the possible responses to that instability and unrest. Violent acts arising from, and leading to, instability and unrest have in the past had, and may continue to have, a material adverse effect on the confidence level and/or performance of, the affected country’s economy. In the event that the countries that we operate in, such as Malaysia, are affected by terrorist activities, this may in turn materially and adversely affect the Business.

16.2 Risks relating to the Target Group’s operations in Malaysia

The Target Group’s operations are affected by changes in or changes in the interpretation of existing, and the adoption of new, Malaysian laws and regulations

The Target Group has its headquarters in Malaysia. The Target Group operates the KTM Manufacturing Facility in Malaysia, and is also expecting to complete the construction of and commence operations at the New Fabric Dyeing Facility in Malaysia sometime in end FY2018. The Target Group’s operations in Malaysia are regulated by the laws and regulations of Malaysia, including those relating to the corporate, investment, marketing, labour, environmental protection, occupational health and safety, waste and waste-water treatment, operation management and taxation matters.

The legal and regulatory regimes in Malaysia may be uncertain and subject to unforeseen changes. At times, the interpretation or application of laws and regulations in Malaysia may be unclear. Government policies, regulations and guidelines issued and imposed by the relevant authorities may change from time to time. In addition, existing laws, regulations or policies may become stricter or more strictly enforced. As a result, the Target Group may be subject to greater evaluation and scrutiny, and costs of compliance may increase. The failure to discharge the Target Group’s obligations could result in the imposition of fines and penalties, damage to the Target Group’s reputation, delays in production or the temporary or permanent closure of its operations. The occurrence of any of these events may materially and adversely affect the Business.

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The Target Group is subject to political, economic and social conditions in Malaysia

The Target Group's operations in Malaysia is sensitive to the social, economic, political and legal conditions in Malaysia. Developments in Malaysia may include changes in government policies, currency and interest rates, inflation, capital restrictions, price and wage controls, unemployment rate, taxes and duties.

The Target Group has no control over such developments and there is no assurance that developments will not occur. These changes, if they occur, may materially and adversely affect the Target Group's Malaysian operations and thus the Business.

The Target Group is subject to regulations governing foreign workers

The Target Group's operations are labour-intensive. Due to shortage of domestic labour in Malaysia, the Target Group expects to continue to rely on foreign workers for its operations to some extent. As at the Latest Practicable Date, the Target Group employs around 380 production workers in Malaysia, 356 of which are foreign workers, mainly from countries such as Indonesia, Vietnam, Cambodia, Bangladesh, Nepal and Myanmar.

These foreign workers are regulated by the Malaysian government authorities which set a limit to the number of foreign workers which the Target Group may hire and also impose levies on each foreign worker hired by the Target Group. As such, any changes in governmental policies to lower the limit of the number of foreign workers permissible to be employed by the Target Group or an increase in levy may materially and adversely affect the Business.

In addition, any changes in the policies of foreign workers' countries of origin may affect the supply of foreign labour and cause disruptions to the Target Group's operations in Malaysia. Any increase in competition for foreign workers may also increase labour costs. In the event that the number of foreign workers that the Target Group can employ is reduced and/or the cost of its labour increases, this will materially and adversely affect the Business.

The Target Group is subject to the foreign exchange legislation and regulations in Malaysia

Local and foreign investors are subject to foreign exchange administration rules in Malaysia. The FSA and the IFSA govern the foreign exchange control framework in Malaysia. Under the FSA and the IFSA, Bank Negara has issued notices. These notices embody Bank Negara's general permissions and directions. They set out the circumstances in which residents and non-residents must seek the specific approval of the Foreign Exchange Administration Department (within Bank Negara) to remit funds to and from Malaysia.

The notices are reviewed regularly according to changing circumstances. As at the Latest Practicable Date, foreign investors are free to repatriate divestment proceeds, profits, dividends, or any income arising from investments in Malaysia. However, the repatriation of funds may be restricted in the future. This will limit the Target Group's ability to extract the profits from its Malaysian operations.

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In addition, the Target Group's Malaysian subsidiaries may be subject to restrictions on the borrowing of foreign currency or from non-residents, which may affect its ability to raise funds in the future should the need arise. Please refer to the Section 6.9.3 entitled "Foreign exchange control" of the Target Letter for more details.

The relevant rules and regulations on foreign exchange control in Malaysia may change. If there is any adverse change in the foreign exchange rules and regulations relating to the borrowing or repatriation of foreign currency, the Business may be materially and adversely affected.

The New Fabric Dyeing Facility is subject to environmental laws in Malaysia

The construction of the New Fabric Dyeing Facility by the Target Group in Malaysia is expected to be completed, and operations are expected to commence, sometime towards the end of December 2018 or January 2019. The New Fabric Dyeing Facility, when operational, will emit harmful wastes such as effluent from the dyeing process for the fabric. In this regard, the New Fabric Dyeing Facility will need to comply with the applicable environmental, anti-pollution and related laws and regulations in Malaysia. See further **Appendix I** entitled "Summary of Applicable Laws and Regulations in Malaysia" of this Circular.

If the Target Group fails to comply with the standards as required under applicable laws and regulations, it may be subject to fines, warnings and/or orders from relevant government authorities to rectify the problem within a specified period of time. If this situation arises, the Business may be materially and adversely affected.

In addition, existing environmental laws and regulations may be amended from time to time as required by the Malaysian government and is not within the Target Group's control. There is no assurance that the Target Group's current environmental measures and policies will be adequate to meet future environmental policies and requirements. The Target Group may thus be required to incur additional costs to comply with such future requirements. In such event, the Target Group's capital expenditure and cost of production may increase unexpectedly, which may in turn materially and adversely affect the Business.

16.3 Risks relating to the Target Group's operations in Cambodia

The Target Group's apparel products manufactured in Cambodia are susceptible to changes in the preferential tariffs that Cambodia currently enjoys

As at the Latest Practicable Date, under the Everything But Arms arrangement of the Generalised Scheme of Preferences of EU ("**EBA Arrangement**"), all products (except arms and armaments) with Cambodia as their country of origin enjoys full duty free and quota free access to the EU, subject to compliance with the conditions thereunder. Under the General Preferential Tariff of Canada ("**GPT Scheme**"), Cambodia is as at the Latest Practicable Date regarded as a Least Developed Country and most goods with Cambodia as their country of origin enjoy duty-free access to Canada, subject to compliance with the condition thereunder.

The preferential tariffs accorded to Cambodia by the EU and Canada and/or the conditions required to be satisfied in order to enjoy such tariffs may be changed from time to time. In

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particular, Cambodia enjoys such preferential tariffs on the basis that it is a least developed country. As Cambodia's economy continues to grow, there is a risk that Cambodia may eventually be removed from the list of eligible beneficiary countries under the EBA Arrangement and/or the GPT Scheme in the future.

In addition, when the UK's withdrawal from the EU takes effect eventually, the EBA Arrangement of the EU would no longer apply to the import into the UK of products with Cambodia as their country of origin. There is no certainty that UK will implement the same or similar preferential tariff schemes, and there is therefore no assurance that the import of the Target Group's apparel products into the UK will continue to enjoy preferential tariffs.

In the event of any change to the preferential tariffs accorded to Cambodia by the EU and/or Canada and/or the applicable conditions thereunder, or the UK does not implement the same or similar preferential tariff schemes as the EBA Arrangement after its formal withdrawal from the EU, the sales and profitability of the sale of apparel products manufactured in Cambodia, and therefore the Business, may be materially and adversely affected.

Absence of published court decisions and formal legal interpretation could have an adverse impact on the Target Group

The Target Group's operations in Cambodia are subject to laws, rules and regulations adopted by the Cambodian Parliament or the Cambodian Government. The laws in Cambodia and its legal system are still in a developmental stage and are subject to change. The absence of full publication of court decisions and the limited access to formal written legal interpretation by public authorities or travaux préparatoires means that there is a lack of consistency and predictability in the interpretation and enforcement of laws and regulations and dispute resolution. Accordingly, conducting business in Cambodia entails a certain degree of risk, in the event that the interpretation or enforcement of laws, rules, regulations or policies are adopted in a way which is adverse to the Target Group's operations.

The Target Group's business in Cambodia may be subject to labour unrest in Cambodia which may adversely affect its Business

There have in the past been demands from garment factory workers for better pay and working conditions in Cambodia. Labour strikes have been used by garment factory workers and unions to pressure employer associations and the Cambodian Government for increases in the monthly minimum wage.

In January 2012, Moon Cambodia was involved in a labour dispute in relation to sixteen (16) claims made by its employees. The employees eventually went on strike in early February 2012. This resulted in the suspension of work for around eight (8) days at the Cambodia Manufacturing Facility of Moon Cambodia. In early 2014, Callisto Cambodia and Moon Cambodia were involved in labour disputes in relation to certain claims made by their respective employees, who eventually went on strike. This resulted in the suspension of work for around twenty-four (24) days at the Cambodian Manufacturing Facility of Callisto Cambodia and around thirteen (13) days at the Cambodian Manufacturing Facility of Moon Cambodia respectively. See further Section 4.18 entitled "Employees" of the Target Letter for more information.

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The incidence of labour unrest may increase costs for production in Cambodia and result in the disruption to production schedules, which may adversely affect the Target Group's ability to deliver products to its customers on time and/or result in the closure of its Cambodian Manufacturing Facilities.

In addition, increases in the minimum wage of Cambodian workers in the garment, textile and footwear sectors and pressure to improve working conditions may increase the Target Group's labour costs and further adversely affect its business operations and financial condition. If the Target Group is not able to offer competitive compensation packages, it may face higher turnover of workers, in particular skilled labour.

The occurrence of labour unrest and increase in labour costs in Cambodia may negatively impact the Cambodian Manufacturing Facilities and in turn materially and adversely affect the Business.

16.4 Risk factors relating to ownership of the Shares following Completion

The Company will be controlled by the Vendor and the Family Trust Company and the ability of the other Shareholders to influence matters requiring Shareholders' approval will be extremely limited

Upon the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares, it is expected that the Vendor and the Family Trust Company will collectively hold approximately 80.44% of the Enlarged Number of Issued Shares. Please refer to Section 12.3 entitled "Changes in shareholding structure" of this Circular for more information on the Controlling Shareholders of the Company and their respective interests in the Shares after Completion.

As a result, the Vendor and the Family Trust Company will be able to exercise significant influence over the outcome of matters submitted to Shareholders for approval, including, among others, election of the Directors, the approval of significant corporate transactions and the affairs and policies of the Company. The Vendor and the Family Trust Company will also have veto power in relation to any shareholder action or approval requiring a special resolution except in situations where they are required by the Catalist Rules and/or the SGX-ST to abstain from voting. Such concentration of ownership in the Vendor and the Family Trust Company could delay, defer, deter or prevent future transactions including a take-over or a change in control of the Company, and could make some transactions more difficult or impossible to complete without the support of the Vendor and the Family Trust Company, which may otherwise have benefited the Shareholders.

Protection afforded to Shareholders under Singapore laws is limited as substantially all of the Target Group's assets and operations are located in Malaysia and Cambodia and the New Executive Directors are based in Malaysia

Upon Completion, the Enlarged Group's operations and significant assets will primarily be located in Malaysia and Cambodia, and are therefore subject to the relevant laws of Malaysia and Cambodia. Mr Lim Siau Hing and Mr Lim Vhe Kai, the New Executive Directors, are not resident in Singapore and their assets are located outside of Singapore. As a result, it may be difficult for investors to effect service of process in Singapore, or to enforce a judgement obtained in Singapore against the Target Group or any such persons. In particular, judgements of a Singapore court may not be enforceable in the relevant

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foreign jurisdiction. It may also be difficult for investors to take legal action against the Target Group or any of the New Executive Directors in a foreign jurisdiction and the costs of bringing such an action may be prohibitive.

The Share price may be volatile, which could result in substantial losses for investors in the Shares after Completion

The market price of the Shares may fluctuate significantly and rapidly as a result of, among other things, the following factors, some of which are beyond the control of the Company and the Enlarged Group:

- (a) the success or failure of the Enlarged Group's management team in implementing business and growth strategies;
- (b) gain or loss of important or significant business or other relationships;
- (c) the addition or departure of key personnel;
- (d) announcements by the Company or its competitors of significant contracts, acquisitions, strategic alliances, partnerships, joint ventures, capital commitments or new products and/or services which may be offered by the Enlarged Group or its competitors;
- (e) changes in the Enlarged Group's operating results;
- (f) fluctuations in general stock market conditions including stock prices and volume;
- (g) any negative publicity on the Enlarged Group;
- (h) involvement in litigation or other legal proceedings or processes;
- (i) differences between the actual financial operating results of the Enlarged Group and those expected by investors;
- (j) changes in investor sentiment towards particular market sectors;
- (k) changes in securities analysts' estimates of the Enlarged Group's financial performance;
- (l) foreign exchange fluctuations and translations; and
- (m) changes or uncertainty in the general economic, political and regulatory environment in the markets in which the Enlarged Group operates.

In recent years, the stock markets including the SGX-ST have experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies. Those changes may occur without regard to the operating performance of these companies. The price of the Shares may therefore fluctuate based upon factors that have little or nothing to do with the Company, and these fluctuations may materially affect the price of its shares of the Company.

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Existing Shareholders will face immediate and substantial shareholding dilution following Completion

Upon allotment and issue of the Consideration Shares, the Transaction Costs Shares and the Settlement Shares, the collective shareholdings of the Vendor and the Family Trust Company will be approximately 80.44% of the Enlarged Number of Issued Shares. Accordingly, the existing Shareholders will face an immediate and substantial dilution to their shareholdings.

The Enlarged Group may be affected by the future sale of Shares by the Vendor

Following the expiry of the moratorium period, the Shares owned by the Vendor and the Family Trust Company will be eligible for sale in the open market, subject to applicable securities laws and regulations. The market price of the Shares could decline as a result of sales of such Shares in the market. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to issue new securities in the future at a time and price that it deems appropriate.

The Enlarged Group may be affected by the need to obtain further financing for future growth

In the event that the costs of implementing future growth plans should exceed funding estimates significantly or that the Enlarged Group comes across opportunities to grow through expansion plans which cannot be predicted at this juncture, and internal funds generated from the Target Group's operations prove insufficient for such purposes, the Enlarged Group may need to raise additional funds to meet these funding requirements.

The Enlarged Group will consider obtaining such funding from new issue of equity, debt instruments and/or external bank borrowings, as appropriate. Funding through the new issue of equity will lead to a dilution in the interests of the Shareholders. An increase in debt financing may be accompanied by conditions that restrict the Enlarged Group's ability to pay dividends or restrict its freedom to operate its business by requiring lenders' consent for certain corporate actions. In addition, there is no assurance that the Enlarged Group will be able to obtain additional financing on terms that are favourable and acceptable. If the Enlarged Group is not able to secure adequate financing, the Enlarged Group's business and growth may be negatively affected.

The accounting treatment of the reverse acquisition could have a material adverse impact on the financial performance and position of the Enlarged Group immediately after Completion

Upon Completion, the Proposed Acquisition is required to be accounted for as a reverse acquisition involving a non-trading shell company as the Company has ceased its operations and is currently a cash company.

From the financial reporting perspective, this transaction is accounted as a share-based transaction as described in SFRS(I) 2 Share-based Payment where the Target Group is deemed to have issued shares in exchange for the listing status of the Company. As the

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listing status did not qualify for recognition as an intangible asset, the cost of the reverse acquisition (net of assets/liabilities acquired) is expensed off in the profit or loss as listing expenses.

Accordingly, this could have a material adverse impact on the financial performance and position of the Enlarged Group for FY2019. For more information about the estimated financial effect of the reverse acquisition, please see Section 10 entitled “Financial Effects of the Proposed Transactions” and **Appendix F** entitled “Report on Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group for the Financial Year Ended 31 December 2017 and the Six-Month Period Ended 30 June 2018” of this Circular.

The Company may not be able to pay dividends in future

The Company’s ability to declare dividends to Shareholders will depend on its future financial performance and distributable reserves, which, in turn, depends on the Company successfully implementing its plans and strategies and capital requirements as well as financial, competitive, regulatory, technical and other factors, general economic conditions and other factors specific to its industry and business, many of which are beyond the Company’s control. As such, there is no assurance that the Company will be able to pay dividends to its Shareholders after the Completion.

KTM has obtained facilities from several banks in Malaysia and some of these facilities contain covenants against the declaration or payment of dividend by KTM except with the prior consent of the relevant banks. KTM, which operates the KTM Manufacturing Facility, is the main subsidiary of the Target Group, and the ability of the Company to declare and pay dividend after Completion is dependent to some extent on the ability of KTM to declare and pay dividend to the Company. In addition, in the event that any company in the Enlarged Group enters into any loan agreements in the future, covenants therein may also limit when and how much dividends the Company can declare and pay. There is no assurance that KTM or other relevant Target Group Company will be able to obtain the approval of the relevant banks for the declaration and payment of dividend, and there is therefore no assurance that the Company will be able to declare and pay dividend after Completion.

Negative publicity involving any of the New Directors, New Executive Officer, Controlling Shareholders or Substantial Shareholders of the Company

Any negative publicity or announcement relating to any of the New Directors, New Executive Officer, Controlling Shareholders or Substantial Shareholders of the Company following the Completion may adversely affect the market perception of the Enlarged Group or performance of the share price of the Company, whether or not it is justifiable.

17. INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICT OF INTERESTS

17.1 Interested Person Transactions involving the Group

17.1.1 Allotment and issue of the Settlement Shares

As mentioned in Section 2.9.2 entitled “Settlement Shares” of this Circular, the Proposed Transactions include the allotment and issue of the Settlement Shares

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by the Company to Bin Tai, a Controlling Shareholder of the Company. This constitutes an Interested Person Transaction between the Company and Bin Tai under Chapter 9 of the Catalist Rules.

Pursuant to Rule 906(1)(a) of the Catalist Rules, if the value of an Interested Person Transaction amounts to 5% or more of the Group's latest audited NTA, Shareholders' approval will be required and an independent financial adviser is required to be appointed to opine on whether the transaction is on normal commercial terms and is prejudicial to the interests of the Company and its minority Shareholders.

Based on the audited consolidated financial statements of the Group for the financial period from 1 April 2017 to 31 December 2017, the NTL of the Group as at 31 December 2017 was approximately negative S\$5.84 million. In view of the net liability position of the Group as at 31 December 2017, the computation of the 5% threshold for the purpose of determining whether the arrangement requires Shareholders' approval is not meaningful.

In any event, Shareholders' approval is being sought under Ordinary Resolution 5 for the allotment and issue of the Settlement Shares to Bin Tai. The Settlement Shareholders and their respective associates will abstain from voting on Ordinary Resolution 5 on the allotment and issue of the Settlement Shares to Bin Tai, and will also not accept appointment as proxies in relation to Ordinary Resolution 5 unless specific voting instructions are given in the proxies.

Rule 921(4)(b)(i) of the Catalist Rules provides that an opinion from an independent financial adviser is not required for the issue of shares for cash pursuant to Part VI of Chapter 8 of the Catalist Rules, provided that the audit committee expresses an opinion on whether the issue is on normal commercial terms and is prejudicial to the interests of the company and its minority shareholders. Rule 921(4)(b)(i) of the Catalist Rules applies in the present case as the amount owing from the Company to Bin Tai as part of the Amount Owing (which amounted to around S\$6.22 million as at the Latest Practicable Date) is deemed to have been settled in full pursuant to allotment and issue of the Settlement Shares to Bin Tai.

The Existing Audit Committee has expressed the opinion that the allotment and issue of the Settlement Shares to Bin Tai pursuant to the arrangement described in Section 2.9.2 is on normal commercial terms and not prejudicial to the interests of the Company or its minority Shareholders based on the following:

- (a) the Amount Owing arose from general operational activities of the Group, as described in Section 2.9.1 entitled "Amount Owing" of this Circular;
- (b) since the inclusion of emphasis of matter by the auditors in the Company's annual report for the financial year ended 31 March 2011 on the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern, the major shareholder has undertaken to provide financial support as and when it may be required for the Group and

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the Company to meet its liabilities and its normal operating expenses to be incurred to enable the Group and the Company to continue as a going concern;

- (c) the Company has been a cash company since the completion of the disposal of Lereno Sdn Bhd on 17 August 2015. Since then, the Company did not have any revenue and only generated small amounts of other income (primarily gains from the disposal of assets, job credit income and refund of deposits which were previously written off) which was insufficient for its operating expenses;
- (d) based on the Company's latest announcement of its monthly valuation of assets dated 14 December 2018, the Company was in a net liability position of around S\$6.18 million as at 30 November 2018;
- (e) the Amount Owing Cap of S\$4.8 million represents a discount of at least 17.5% to the full and final settlement of all amount owing to Bin Tai as at the date of Completion;
- (f) the Settlement Shares will be issued at the Issue Price, which: (i) is the same as the Issue Price for the Proposed Acquisition; and (ii) will be the same as the placement price for the Bin Tai Placement that will be undertaken by Bin Tai in order to meet the 15.0% public float requirement under Rule 1015(3) read with Rule 406(1) of the Catalist Rules;
- (g) the SGX-ST has granted the Company four (4) extensions to complete an acquisition of assets to meet the requirements for a new listing. The latest extension is valid till 28 February 2019, and there is no assurance that the SGX-ST will grant any further extension of time if the Proposed Acquisition is not completed;

If the Company is required to be delisted, a cash exit offer in accordance with the Catalist Rule 1309 of the Catalist Rules is required to be made to Shareholders within six (6) months. However, the Company had a net liabilities position as at 30 November 2018. Accordingly, if the Company is required to be delisted, Shareholders are unlikely to receive any cash exit offer for their Shares; and

- (h) the rationale for the allotment and issue of the Settlement Shares as set out in Section 2.9.2 entitled "Settlement Shares" of this Circular.

17.1.2 Disposal of MAE Engineers to Mr Ong

As at the Latest Practicable Date, the Company has one subsidiary, MAE Engineers.

Under the Option Agreement, the Company has undertaken to procure that, as at the Completion Date and immediately prior to Completion, it will not have (among other things) any subsidiaries.

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In view of the foregoing, the Company and Mr Ong have entered into a sale and purchase agreement dated 21 December 2018 pursuant to which the Company agreed to sell all of the issued shares in the capital of MAE Engineers to Mr Ong for a nominal consideration of S\$1.00 ("**MAE Engineers Disposal**"). The nominal consideration takes into account that MAE Engineers has been dormant since April 2008 and, as at the Latest Practicable Date, has no business or operations, no recurring income and negative equity.

As Mr Ong is an Executive Director, and Managing Director and Chief Executive Officer, of the Company, the MAE Engineers Disposal constitutes an Interested Person Transaction. In view of the net liability position of the Group as at 31 December 2017, the computation of the 5% threshold for the purpose of determining whether the MAE Engineers Disposal requires Shareholders' approval is not meaningful. However, as the consideration for the disposal of MAE Engineers is below S\$100,000, Shareholders' approval is not required pursuant to Rule 906 of the Catalist Rules.

Taking into account that MAE Engineers has been dormant since April 2008 and, as at the Latest Practicable Date, has no business or operations, no recurring income and negative equity, the Existing Audit Committee has expressed the opinion that the MAE Engineers Disposal is on normal commercial terms and not prejudicial to the interests of the Company or minority Shareholders.

The MAE Engineers Disposal is expected to be completed by 31 December 2018.

17.2 Interested Person Transactions involving the Target Group

Upon Completion, transactions between the Enlarged Group and any of the Company's Interested Persons (namely, the New Directors, CEO or Controlling Shareholders of the Company or the associates of such New Directors, CEO or Controlling Shareholders) would constitute Interested Person Transactions for the purposes of Chapter 9 of the Catalist Rules.

Please refer to Section 10.2 entitled "Interested Person Transactions" of the Target Letter for more information on the Target Group's transactions with Interested Persons for FY2015, FY2016, FY2017 and the financial period from 1 January 2018 up to the Latest Practicable Date ("**Relevant Period**") which are material in the context of the Proposed Transactions.

In line with Chapter 9 of the Catalist Rules, a transaction with a value of less than S\$100,000 is not considered material in the context of the Proposed Transactions and is not taken into account for the purposes of aggregation in this section.

Save as disclosed in this Section, there were no material Interested Person Transactions involving the Company and the Target Group within the Relevant Period. Following completion of the Proposed Transactions, the Enlarged Group will not enter into any Interested Person Transactions unless it complies with the requirements under Chapter 9 of the Catalist Rules as well as the procedures set out under Section 10.4 entitled "Guidelines and Review Procedures for Future and On-Going Interested Person Transactions" in the Target Letter, where applicable.

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17.3 Potential conflict of interests

In general, a conflict of interests arises when any of the New Directors, Controlling Shareholders or their associates (immediately after Completion) is carrying on or has any interest in any other corporation carrying on the same business or dealing in similar products as the Enlarged Group.

Please refer to Section 10.3 entitled “Potential Conflict of Interests” in the Target Letter for more information on such conflict of interests pertaining to the Target Group.

Save as disclosed in Section 10 entitled “Interested Person Transactions and Potential Conflict of Interests” in the Target Letter, none of the New Directors (including the CEO) or Controlling Shareholders and/or their associates (immediately after Completion) has had any material interest, direct or indirect, in:

- 17.3.1 any material transactions to which the Enlarged Group was or is to be a party;
- 17.3.2 any company carrying on the same business or carrying on a similar trade as the Enlarged Group; or
- 17.3.3 any enterprise or company that is a customer or supplier of goods or services to the Enlarged Group.

Please refer to Section 10 entitled “Interested Person Transactions and Potential Conflict of Interests” in the Target Letter for more information.

18. MORATORIUM

18.1 Vendor Consideration Shares and Transaction Costs Shares

Upon Completion, an aggregate of 85,000,000 Vendor Consideration Shares (“**Family Trust Moratorium Shares**”) will be allotted and issued to the Family Trust Company to be held for the benefit of the Family Trust, and the balance of 41,500,000 Vendor Consideration Shares and the Transaction Costs Shares (collectively “**Vendor Moratorium Shares**”) will be allotted and issued directly to the Vendor.

18.2 Moratorium by Family Trust Company and Vendor

To demonstrate their commitment to the Enlarged Group, each of the Family Trust Company and the Vendor has provided to the Company and the Sponsor a separate undertaking pursuant to which each of the Family Trust Company and the Vendor has undertaken, among other things, not to:

- 18.2.1 directly or indirectly offer, sell, contract to sell, transfer, realise, dispose of or otherwise deal with, or grant any option or other right to purchase or grant any security over, mortgage, charge, assign, pledge or otherwise encumber any of the Family Trust Moratorium Shares or the Vendor Moratorium Shares (as the case may be) or any interest therein;

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- 18.2.2 enter into a transaction or other arrangement, in whole or in part (including any swap, hedge or derivative transaction) with a similar economic effect to the foregoing, whether such transaction or arrangement involves settlement by delivery of any of the Family Trust Moratorium Shares or the Vendor Moratorium Shares (as the case may be) or any interest therein, in cash or otherwise;
- 18.2.3 deposit any of the Family Trust Moratorium Shares or the Vendor Moratorium Shares (as the case may be) or any interest therein in any depository receipt facility;
- 18.2.4 enter into any transaction or other arrangement which is designed or which may reasonably be expected to result in any of the foregoing; or
- 18.2.5 publicly announce any intention to do any of the foregoing

for a period of six (6) months commencing from the date of resumption of trading of the Consolidated Shares after completion of the Bin Tai Placement. The above restrictions will continue to apply to 50.0% of the Family Trust Moratorium Shares or the Vendor Moratorium Shares, as the case may be, for a further period of six (6) months thereafter.

18.3 Moratorium by Family Trustee Company

In addition to the foregoing, the Family Trustee Company that is holding all of the issued shares in the capital of the Family Trust Company ("**Family Trust Company Shares**") has provided to the Company and the Sponsor an undertaking pursuant to which it has undertaken, among other things:

- 18.3.1 it will procure the Family Trust Company to comply with its obligations under the undertaking given by the Family Trust Company referred to in Section 18.2 entitled "Moratorium by Family Trust Company and Vendor" above; and
- 18.3.2 not to:
 - (a) directly or indirectly offer, sell, contract to sell, transfer, realise, dispose of or otherwise deal with, or grant any option or other right to purchase or grant any security over, mortgage, charge, assign, pledge or otherwise encumber any of the Family Trust Company Shares;
 - (b) enter into a transaction or other arrangement, in whole or in part (including any swap, hedge or derivative transaction) with a similar economic effect to the foregoing, whether such transaction or arrangement involves settlement by delivery of any of the Family Trust Company Shares or any interest therein, in cash or otherwise;
 - (c) deposit any of the Family Trust Company Shares or any interest therein in any depository receipt facility;
 - (d) enter into any transaction or other arrangement which is designed or which may reasonably be expected to result in any of the foregoing; or

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(e) publicly announce any intention to do any of the foregoing,

for a period of twelve (12) months from the date of resumption of trading of the Consolidated Shares after completion of the Bin Tai Placement.

18.4 Controlling Shareholder Moratorium Waiver

Rule 1015(3)(b)(i) of the Catalist Rules provides that the incoming business and enlarged group in the context of a reverse takeover must comply with the moratorium requirements of Rules 420, 421 and 422 or 443 ("**Moratorium Requirements**"), which are applicable to persons who are existing controlling shareholders or who will become controlling shareholders of the issuer as a result of the asset acquisition.

As at the Latest Practicable Date, Bin Tai had an interest in 18,214,144 Shares, which constitute approximately 24.74% of the total issued Shares. Mr Ong had an interest in an aggregate of 20,764,561 Shares (which include the 18,214,144 Shares held by Bin Tai), which constitute approximately 28.20% of the total issued Shares. The Shares in which Bin Tai and Mr Ong have an interest as at the Latest Practicable Date shall collectively be referred to as "**Existing Shares**". As Bin Tai and Mr Ong are Controlling Shareholders of the Company, the Existing Shares would have been subject to the Moratorium Requirements.

The Company had, through its Financial Adviser and Sponsor, applied to the SGX-ST on 3 December 2018 for a waiver from compliance with Rule 1015(3)(b)(i) in respect of the Existing Shares ("**Controlling Shareholder Moratorium Waiver**") based on the grounds set out below:

18.4.1 Rule 1015(3)(b)(i) is intended to apply to persons who are existing Controlling Shareholders or who will become Controlling Shareholders upon Completion. Upon Completion, the interest of Bin Tai and Mr Ong in the Shares will be diluted to approximately 14.68% and 14.76% respectively. As such, both Bin Tai and Mr Ong will cease to be Controlling Shareholders of the Company upon Completion and therefore fall outside of Catalist Rule 1015(3)(b)(i). Further, Mr Ong and Mr Ong Choon Lui will also step down as Directors upon Completion. In view of the foregoing, upon Completion, Bin Tai and Mr Ong will not fall within the definition of "promoters" as defined in the Catalist Rules, i.e. controlling shareholders and their associates, and executive directors with an interest of 5% or more (excluding subsidiary holdings) and will therefore not fall within Rule 420 of the Catalist Rules.

18.4.2 Further, Bin Tai will be undertaking the Bin Tai Placement immediately after Completion to reduce its shareholding to less than 5% in order to assist the Company to restore its public float, and so as to enable the Shares to resume trading and existing public Shareholders to be able to continue to trade in the Shares. Following the completion of the Bin Tai Placement, the interest of Bin Tai and Mr Ong will be further reduced to approximately 4.80% and 4.84% respectively. This brings them further outside of the definition of "promoters" as their interest will drop below 5%.

18.4.3 Bin Tai and Mr Ong are outgoing Shareholders of the Company and have no interest in, and are not involved in the management of, the Target Group to be

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acquired by the Company pursuant to the Proposed Acquisition. Bin Tai and Mr Ong are therefore not considered as investors in the Target Group for the purpose of Rule 421 of the Catalist Rules. In addition, unlike in the case of the Vendor whose Vendor Consideration Shares and Transaction Costs Shares will be subject to moratorium in order to demonstrate his commitment to the Enlarged Group, the same rationale does not apply to Bin Tai and Mr Ong in respect of the Existing Shares.

- 18.4.4 As noted above in Section 18.4.2 above, Bin Tai is undertaking the Bin Tai Placement in order to assist the Company to restore its public float, and so as to enable the Shares to resume trading and existing public Shareholders to be able to continue to trade in the Shares. If the Existing Shares are subject to the Moratorium Requirements, the Existing Shares would not be included in the computation of the public float, and this would result in the Company not meeting the minimum public float requirement even after completion of the Bin Tai Placement. This defeats the purpose of the Bin Tai Placement and result in existing public Shareholders not being able to continue to trade in the Shares. The Vendor, the Family Trust Company and the Family Trustee Company will be providing moratorium undertakings in respect of the Consideration Shares and the Transaction Costs Shares in order for the Vendor to demonstrate commitment to the Company. As such, the rights of public Shareholders will already be safeguarded.

The SGX-ST had on 12 December 2018 granted the Controlling Shareholder Moratorium Waiver, subject to the following conditions:

- (a) an announcement of the waiver granted, stating the reasons for seeking the waiver and the conditions pursuant to Rule 106 of the Catalist Rules;
- (b) disclosure of the waiver granted and bases for seeking the waiver in this Circular; and
- (c) submission of a written confirmation from the Company that the waiver does not contravene any laws and regulations governing the Company and its constituent documents.

19. MATERIAL CONTRACTS

Save as disclosed below and in Section 11.1 entitled “Material Contracts of the Target Group” in the Target Letter, there were no material contracts, not being contracts entered into in the ordinary course of business of the Group and the Target Group, entered into by the Group and the Target Group within the two (2) years preceding the date of lodgement of this Circular that are or may be material:

- 19.1 the Vendor Undertaking;
- 19.2 the agreement relating to indebtedness dated 17 December 2018 executed by the Vendor, Lim Vhe Kai, KTM and the Company described under Section 4.23.1 entitled “Target Company” of the Target Letter and Section 10.2.2(g) entitled “Agreement relating to indebtedness from KTM to Mr Lim Siau Hing and Mr Lim Vhe Kai” of the Target Letter;

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

- 19.3 the non-competition deed of undertaking dated 17 December 2018 executed by Knit Textiles Industries Sdn. Bhd., Mr Lim Siau Hing and Mrs Lim described under Section 10.3.1 entitled “Potential Conflict of Interests in relation to Knit Textiles Industries Sdn. Bhd.” of the Target Letter;
- 19.4 the non-competition deed of undertaking dated 17 December 2018 executed by Haruaki Ventures Sdn. Bhd., Lim Vhe Kai and Chew Chong Kiat described under Section 10.3.2 entitled “Potential Conflict of Interests in relation to Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.)” of the Target Letter;
- 19.5 the deed of undertaking dated 17 December 2018 executed by Mr Lim Siau Hing in favour of the Company and the Financial Adviser and Sponsor in relation to the appointment of a duly registered Cambodian independent external auditor, as described under Section 4.16.1 entitled “Government Regulations” of the Target Letter;
- 19.6 the sale and purchase agreement dated 21 December 2018 executed by the Company and Mr Ong Puay Koon in relation to MAE Engineers Disposal described under Section 17.1.2 entitled “Disposal of MAE Engineers to Mr Ong” of this Circular;
- 19.7 the Settlement Shareholders’ Undertaking;
- 19.8 the deed of undertaking dated 27 September 2017 executed by the Settlement Shareholders in favour of the Company and the Vendor in relation to the Amount Owning, as described in Section 2.9.2 entitled “Settlement Shares” of this Circular;
- 19.9 the Option Agreement (including the supplemental agreements referred to in the definition of “Option Agreement”); and
- 19.10 the deed of termination dated 27 September 2017 between the Company and Kenyalang Property Development Sdn Bhd for the termination of the sale and purchase agreement dated 23 June 2016 between the same parties relating to the sale and purchase of the entire issued and paid-up share capital of Kenyalang Property (S) Pte. Ltd.

20. MATERIAL LITIGATION

The Group had not engaged, in the last twelve (12) months before the date of this Circular, in any litigation or arbitration either as plaintiff or defendant which may have a material effect on its financial position or profitability, and the Directors have no knowledge of any proceedings pending or known to be contemplated against the Group or any information likely to give rise to any litigation, claims or proceedings which may have a material effect on the financial position or the profitability of the Group.

Please see further Section 11.2 entitled “Material Litigation of the Target Group” of the Target Letter for information on material litigation involving the Target Group.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

21. MATERIAL EFFECT ON FINANCIAL POSITION

Save as disclosed in Section 16 entitled “Risk Factors” of this Circular, Section 6 entitled “Management’s Discussion and Analysis of Results of Operations and Financial Position of the Target Group” of the Target Letter, Section 7 entitled “Prospects, Trend Information, Strategy and Future Plans” of the Target Letter and all public announcements made by the Company, the Directors and the New Directors are not aware of any event which has occurred since 30 June 2018, this being the end of the period covered by the “Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor’s Report for the Six-Month Period ended 30 June 2018” attached as **Appendix E** of this Circular, which may have a material effect on the financial position and results of the Target Group.

22. DIVIDEND POLICY

The Company has not declared or paid any dividends for FY2015, FY2016 and FY2017. The Company currently does not have a formal dividend policy. The Company will pay dividends, if any, only out of its distributable profits as permitted under Singapore law. Any final dividends the Company declares must be approved by an ordinary resolution of its Shareholders at a general meeting. The Company is not permitted to pay dividends in excess of the amount recommended by the Board. The Board may, without the approval of its Shareholders, also declare interim dividends. All dividends will be paid in accordance with the Companies Act.

Please refer to Section 4.23 entitled “Dividend Policy” in the Target Letter for more information on the New Directors’ position on the future dividend policy of the Enlarged Group. For information relating to taxes payable on dividends, please refer to **Appendix K** entitled “Taxation” to this Circular.

23. ADVICE OF THE IFA

Pursuant to the condition imposed by the SIC in granting the Whitewash Waiver set out in Section 3.3 entitled “Whitewash Waiver” of this Circular, Xandar Capital Pte. Ltd. has been appointed as the IFA to advise the Recommending Directors in relation to the Proposed Whitewash Resolution.

The letter from the IFA to the Recommending Directors containing its advice in full is set out in **Appendix B** entitled “Letter from the IFA to the Recommending Directors in respect of the Proposed Whitewash Resolution” to this Circular, and Shareholders’ attention is drawn to it.

Taking into consideration the factors set out in its letter, the IFA is of the opinion that, on balance, the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable.

Accordingly, the IFA advises the Recommending Directors to recommend to the Independent Shareholders to vote in favour of the Proposed Whitewash Resolution.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

24. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the interests of the Directors and the Substantial Shareholders of the Company in the issued and paid-up share capital as recorded in the Register of Directors' Shareholdings and the Register of Substantial Shareholders are as follows:

	Direct Interest		Deemed Interest	
	No. of Shares	% of total issued Shares	No. of Shares	% of total issued Shares
Directors				
Tan Sri Dato' Kamaruzzaman Bin Shariff	173,824	0.24	—	—
Ong Puay Koon ⁽¹⁾	1,297,240	1.76	19,467,321	26.44
Ong Choon Lui	1,074,584	1.46	—	—
Goh Yeow Tin	77,152	0.10	—	—
Wong Heang Fine	100,128	0.14	640	n.m. ⁽²⁾
Yap Boh Pin	145,248	0.20	—	—
Substantial Shareholders (other than the Directors)				
Bin Tai	18,214,144	24.74	—	—
Spektra Anggun Sdn Bhd	5,565,300	7.56	—	—

Notes:

(1) In addition to the 1,297,240 Shares that are directly held by Mr Ong Puay Koon, he is also deemed to be interested in an aggregate of 19,467,321 Shares, being the aggregate of 18,214,144 Shares held by Bin Tai and 1,253,177 Shares held by Bintai Kinden Corporation Berhad.

(2) Not meaningful.

There was no significant change in the percentage of ownership of the Directors and Substantial Shareholders of the Company in the last three (3) years prior to the Latest Practicable Date. The Shares held by the Directors and Substantial Shareholders of the Company do not carry different voting rights from the Shares held by other Shareholders.

Save as disclosed above and otherwise in this Circular, none of the Directors or Substantial Shareholders has any interest, whether direct or indirect, in the Proposed Transactions.

25. INTERESTS OF FINANCIAL ADVISER AND SPONSOR, IFA AND ADVISOR

25.1 SAC Capital Private Limited

In the reasonable opinion of the Directors, SAC Capital does not have a material relationship with the Company, save for the following:

25.1.1 SAC Capital is the Financial Adviser and Sponsor in respect of the Proposed Acquisition; and

25.1.2 SAC Capital is the continuing sponsor of the Company, and will be the continuing sponsor of the Company for a period of three (3) years from the Completion Date.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

25.2 Xandar Capital Pte. Ltd.

In the reasonable opinion of the Directors, Xandar Capital Pte. Ltd. does not have any material relationship with the Company save that it is the IFA in respect of the Proposed Whitewash Resolution.

25.3 Compass Consulting Pte. Ltd.

The Advisor is engaged by the Vendor to provide certain services to the Vendor, and introduced the Company to the Vendor. The Advisor is not engaged by the Company. The Advisor is not related to the Enlarged Group, Controlling Shareholders of the Company, Directors and/or their respective associates. In the reasonable opinion of the Directors, the Advisor does not have any material relationship with the Company.

26. INTERESTS OF EXPERTS

None of the experts named in this Circular is employed on a contingent basis by the Company and/or the Target Group, or has a material interest, whether direct or indirect, in the Shares or the Option Shares, or has a material economic interest, whether direct or indirect, in the Company and/or the Target Group, including an interest in the Proposed Transactions.

27. DIRECTORS' RECOMMENDATIONS

Having considered and reviewed, amongst other things, the terms of the Option Agreement, the rationale for and the financial effects of the Proposed Transactions, the advice of the IFA in relation to the Proposed Acquisition and the Proposed Whitewash Resolution, the risk factors and other investment considerations, and all other relevant facts set out in this Circular, all of the Directors (save as disclosed below) are of the opinion that all the resolutions as set out in the Notice of EGM are in the best interests of the Company and are not prejudicial to the interests of minority Shareholders. Accordingly, they recommend that Shareholders vote in favour of all the resolutions to be proposed at the EGM, notice of which have been set out in the Notice of EGM.

Mr Ong and Mr Ong Choon Lui have abstained from making any recommendation to Shareholders on Ordinary Resolution 3 relating to the Proposed Whitewash Resolution and Ordinary Resolution 5 relating to the proposed allotment and issue of the Settlement Shares to Bin Tai. Mr Ong will also abstain and procure that his concert parties (in the case of Ordinary Resolution 3) and his associates (in the case of Ordinary Resolution 5) will abstain from voting at the EGM on Ordinary Resolution 3 and Ordinary Resolution 5, and will also decline to accept appointment as proxies for voting at the EGM in respect of Ordinary Resolutions 3 and 5 unless specific instructions as to voting have been given.

Mr Goh Yeow Tin and Mr Yap Boh Pin have abstained from making any recommendation to Shareholders on Ordinary Resolutions 10 and 11 relating to their re-election as Directors respectively. Each of Mr Goh Yeow Tin and Mr Yap Boh Pin will also abstain and procure that his associates will abstain from voting at the EGM on Ordinary Resolutions 10 and 11 respectively, and will also decline to accept appointment as proxies for voting at the EGM in respect of Ordinary Resolutions 10 and 11 respectively, unless specific instructions as to voting have been given.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

28. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which have been set out in the section entitled “Notice of Extraordinary General Meeting” of this Circular, will be held at Suntec Convention & Exhibition Center, 1 Raffles Boulevard, Singapore 039593, Meeting Room 336 (Level 3) on 18 January 2019 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the resolutions (with or without modifications) set out in the Notice of EGM.

29. INTER-CONDITIONALITY

Shareholders should note that the passing of Ordinary Resolutions 1, 2, 3, 4, 5, 6, 7 and 8 and Special Resolution 2 (collectively “**Inter-conditional Resolutions**”) as set out in the Notice of EGM are inter-conditional. This means that if any one (1) of these Inter-conditional Resolutions is not approved, the other Inter-conditional Resolutions would not be passed.

Shareholders should note that Ordinary Resolutions 9, 10, 11 and 12 and Special Resolutions 1 and 3 as set out in the Notice of EGM are conditional upon the Inter-conditional Resolutions being approved. If any of the Inter-conditional Resolutions is not approved, Ordinary Resolutions 9, 10, 11 and 12 and Special Resolutions 1 and 3 would not be passed. The Inter-conditional Resolutions have been structured to be inter-conditional in the manner described above as the Inter-conditional Resolutions pertain to the different corporate actions which constitute the Proposed Acquisition. Ordinary Resolutions 7 and 8 in relation to the appointment of Mr Lim Siau Hing and Mr Lim Vhe Kai as New Directors upon Completion are inter-conditional with the other Inter-conditional Resolutions as they are involved in all key aspects of the business and operations of the Target Group and are critical to the business and operations of the Enlarged Group upon Completion. Please refer to Section 13.2 entitled “New Directors” of this Circular for the profiles of the New Executive Directors.

30. ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached proxy form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 80 Robinson Road #02-00 Singapore 068898 by not later than 10.00 a.m. on 16 January 2019. The completion and return of the proxy form by a Shareholder will not prevent him from attending and voting at the EGM in person if he so wishes.

31. RESPONSIBILITY STATEMENTS OF THE DIRECTORS AND THE NEW DIRECTORS

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Transactions, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

The New Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Transactions, the Target Group and the Enlarged Group (in so far as they relate to the Target Group), and the New Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the New Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

32. FINANCIAL ADVISER AND SPONSOR'S RESPONSIBILITY STATEMENT

To the best of the Financial Adviser's and the Sponsor's knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Transactions, the Company and its subsidiaries and the Enlarged Group, and the Financial Adviser and Sponsor is not aware of any facts the omission of which would make any statement in this Circular misleading.

33. CONSENTS

SAC Capital, the Financial Adviser and Sponsor of the Company, have given and have not withdrawn their written consent to the issue of this Circular with the inclusion of their name and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Xandar Capital Pte. Ltd., the Independent Financial Adviser in respect of the Proposed Whitewash Resolution, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and **Appendix B** entitled "Letter from the IFA to the Recommending Directors in Respect of the Proposed Whitewash Resolution" to this Circular, and all references thereto, in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Ernst & Young LLP, the independent auditors to the Target Group, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and **Appendix C** entitled "Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Financial Years Ended 31 December 2015, 2016 and 2017", **Appendix D** entitled "Reconciliation on Full Convergence with SFRS(I) and Adoption of New Standards" and **Appendix E** entitled "Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Six-Month Period Ended 30 June 2018" to this Circular, and all references thereto, in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Ernst & Young LLP, the reporting accountants of the Enlarged Group, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and **Appendix F** entitled “Report on Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group for the Financial Year Ended 31 December 2017 and Six-Month Period ended 30 June 2018” to this Circular, and all references thereto, in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Foo Kon Tan LLP, the auditors to the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Lee & Lee, the legal adviser to the Company as to Singapore law, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Jeff Leong, Poon & Wong, the legal adviser to the Company as to Malaysia law, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name, the statements in Section 4.14.1 of the Target Letter entitled “Properties in Malaysia”, and the statements in Section 1.3 of **Appendix I** entitled “Summary of Applicable Laws and Regulations in Malaysia”, and all references thereto, in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Bun & Associates, the legal adviser to the Company as to Cambodia law, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the statements in Section 4.16.1 of the Target Letter entitled “Government Regulations”, and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Heng & Partners Law Group, the Cambodian counsel appointed by the Company to provide the specific advice referred to in Section 14.7 entitled “Internal Controls”, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the statement in Section 14.7 entitled “Internal Controls”, and all references thereto, in the form and context in which they appear in this Circular, and to act in such capacity in relation to this Circular.

Appleby, the legal adviser to the Company as to Seychelles law, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Chancery Law Corporation, the legal adviser to the Financial Adviser and Sponsor as to Singapore Law, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the Business Valuer in respect of the Proposed Acquisition, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and **Appendix G** entitled “Business Valuation Report”, and all references thereto, in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Nexia TS, which was engaged to conduct an internal controls review of the Target Group’s key business processes, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name, the statements in Section 14.7 entitled “Internal Controls” of this Circular, and all references thereto in the form and context in which they appear in this Circular and to act in such capacity in relation to this Circular.

Each of Lee & Lee, Appleby and Chancery Law Corporation does not make, or purport to make, any statement in this Circular or any statement upon which a statement in this Circular is based, and makes no representation, express or implied, regarding, and to the extent permitted by law, expressly disclaims and takes no responsibility for any liability to any person which is based on, or arises out of, any statement, information or opinion in or omission from this Circular.

Save for the statement attributed to Jeff Leong, Poon & Wong in Section 4.14.1 entitled “Properties in Malaysia” of the Target Letter and the statements in Section 1.3 of Appendix I entitled “Summary of Applicable Laws and Regulations in Malaysia” (which were given for the purpose of incorporation into this Circular), Jeff Leong, Poon & Wong does not make, or purport to make, any statement in this Circular or any statement upon which a statement in this Circular is based, and makes no representation, express or implied, regarding, and to the extent permitted by law, expressly disclaims and takes no responsibility for any liability to any person which is based on, or arises out of, any statement, information or opinion in or omission from this Circular.

Save for the statements attributed to Bun & Associates in Section 4.16.1 entitled “Government Regulations” of the Target Letter (which were given for the purpose of incorporation into this Circular), Bun & Associates does not make, or purport to make, any statement in this Circular or any statement upon which a statement in this Circular is based, and makes no representation, express or implied, regarding, and to the extent permitted by law, expressly disclaims and takes no responsibility for any liability to any person which is based on, or arises out of, any statement, information or opinion in or omission from this Circular.

Save for the statement attributed to Heng & Partners Law Group in Section 14.7 entitled “Internal Controls” of this Circular (which was given on 24 August 2018 for the purpose of incorporation into this Circular), Heng & Partners Law Group does not make, or purport to make, any statement in this Circular or any statement upon which a statement in this Circular is based, and makes no representation, express or implied, regarding, and to the extent permitted by law, expressly disclaims and takes no responsibility for any liability to any person which is based on, or arises out of, any statement, information or opinion in or omission from this Circular.

LETTER TO SHAREHOLDERS FROM THE BOARD OF DIRECTORS OF THE COMPANY

34. DOCUMENTS FOR INSPECTION

The following documents may be inspected at the registered office of the Company during normal business hours for a period of six (6) months from the date of this Circular:

- 34.1 the Existing Constitution;
- 34.2 the Option Agreement and two (2) supplemental agreements;
- 34.3 the IFA Letter as set out in **Appendix B** to this Circular;
- 34.4 the Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Financial Years Ended 31 December 2015, 2016 and 2017 set out in **Appendix C** to this Circular;
- 34.5 the Reconciliation on Full Convergence with SFRS(I) and Adoption of New Standards as set out in **Appendix D** to this Circular;
- 34.6 the Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Six-Month Period Ended 30 June 2018 set out in **Appendix E** to this Circular;
- 34.7 the Report on Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group for the Financial Year Ended 31 December 2017 and the Six-Month Period Ended 30 June 2018 set out in **Appendix F** to this Circular;
- 34.8 the Business Valuation Report set out in **Appendix G** to this Circular;
- 34.9 the material contracts referred to in Section 19 entitled "Material Contracts" of this Circular and Section 11.1 entitled "Material Contracts of the Target Group" of the Target Letter;
- 34.10 the Service Agreements referred to in Section 13.6 entitled "Service Agreements" of this Circular; and
- 34.11 the letters of consent referred to in Section 33 entitled "Consents" of this Circular.

35. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Circular.

Yours faithfully

For and on behalf of the Board of Directors of
Lereno Bio-Chem Ltd.
Ong Puay Koon
Managing Director and Chief Executive Officer

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APPENDIX A: LETTER TO SHAREHOLDERS FROM THE NEW DIRECTORS

KNIT TEXTILE AND APPAREL PTE. LTD.

(Incorporated in the Republic of Singapore on 5 September 2017)
(Company Registration Number: 201725196C)

New Directors:

Mr Lim Siau Hing @ Lim Kim Hoe (*Executive Chairman*)
Mr Lim Vhe Kai (*Executive Director and Chief Executive Officer*)
Mr Goh Yeow Tin (*Lead Non-Executive and Independent Director*)
Mr Yap Boh Pin (*Non-Executive and Independent Director*)
Mr Koh Boon Huat (*Non-Executive and Independent Director*)

Registered Office

50 Raffles Place
#06-00
Singapore Land Tower
Singapore 048623

21 December 2018

To: The Shareholders of Lereno Bio-Chem Ltd.

Dear Sir/Madam,

ACQUISITION BY LERENO BIO-CHEM LTD. OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF KNIT TEXTILE AND APPAREL PTE. LTD.

1. INTRODUCTION

This letter set out in **Appendix A** to the Circular ("**Target Letter**") has been prepared by the New Directors for and on behalf of the Target Group, for inclusion in the Circular.

Capitalised terms defined in the Circular shall apply throughout this Target Letter (except where the context otherwise requires).

2. BACKGROUND AND HISTORY OF THE TARGET GROUP

2.1 Background

The Target was incorporated as a private limited company in Singapore on 5 September 2017. Pursuant to the Option Agreement, the Vendor will undertake the Restructuring Exercise, pursuant to which the Target will become the holding company of the Target Subsidiaries. See further Section 3 entitled "Restructuring Exercise and Group Structure" of this Target Letter. The Restructuring Exercise has not been completed as at the Latest Practicable Date.

The Target Group is engaged in the contract manufacturing of apparels, specialising in nightwear, lounge wear, casual wear and plus sizes apparels for men, women and children, in their manufacturing facilities located in Malaysia and Cambodia. In addition, the Target Group is currently expanding upstream into the knitting, dyeing, printing and finishing of fabric in Malaysia. See further Section 4 entitled "Business Overview" of this Target Letter.

2.2 History and Development

The success of the Target Group today can be attributed to the efforts of Mr Lim Siau Hing and his wife, Mrs Lim. The history of the Target Group can be traced back to 1977, when Mr Lim Siau Hing and a few business partners set up Minat Industries Sdn Bhd to operate a fabric dyeing factory in Batu Pahat, Johor, Malaysia.

APPENDIX A: LETTER TO SHAREHOLDERS FROM THE NEW DIRECTORS

In 1981, Mr Lim Siau Hing left Minat Industries Sdn Bhd and founded Knit Textiles Industries Sdn. Bhd. with Mrs Lim and a business partner to operate a fabric knitting factory in Batu Pahat. Through operating this factory, Mr Lim Siau Hing and Mrs Lim gained invaluable knowledge and experience of the apparel industry and built up a network of contacts within the industry.

Mr Lim Siau Hing and Mrs Lim recognised the growth potential of the apparel manufacturing industry in Malaysia and decided to move away from fabric knitting into the manufacture of apparels.

In 1988, Mr Lim Siau Hing and Mrs Lim set up KTM to operate an apparel manufacturing factory in a small shop house in Batu Pahat. The primary focus of KTM at that time was the manufacturing of general apparels for export, mainly to Europe. Under the leadership of Mr Lim Siau Hing and Mrs Lim, and with the strong network that they have built up, KTM eventually expanded its export markets to include the US and Canada.

In 1992, after having been in operation for only around four (4) years, KTM achieved sales revenue of more than RM13.0 million.

In 1993, KTM became the supplier of UK-based retailer of clothing and homeware, Matalan Retail Limited, which not only remains as a customer after twenty-five (25) years but is now a major customer of KTM.

During the Asian financial crisis in 1997, KTM was able to maintain healthy sales and continue operations without being adversely affected. Its resilience during the Asian financial crisis can be attributed to the fact that its customers were mainly from countries outside Asia, aided by the depreciation of the Malaysian Ringgit against the United States dollars, which was the key currency adopted in KTM's transactions with its customers.

In 1998, KTM expanded its operations and moved out of its shop house premises into a bigger manufacturing facility to carry out contract manufacturing of apparels.

In 2002, Mr Lim Vhe Kai, who will be a New Executive Director and CEO, and Mr Chew Chong Kiat, who will be a New Executive Officer and COO, joined KTM with the aim of furthering KTM's growth and expansion.

Mr Lim Vhe Kai focused on shifting KTM away from the traditional business model of manufacturing apparels based on customers' specifications, towards the provision of value-added services that involved KTM collaborating with customers on product design by providing creative and functional fashion input. This has since evolved into the co-creation business model (as further described in this Section below).

Mr Chew Chong Kiat, on the other hand, focused on improving KTM's efficiency, lowering production costs and improving its profit margins. By managing and overseeing KTM's production, accounts and finance, and human resource and administration departments, Mr Chew Chong Kiat has been able to regularly provide useful data analysis and cost structures to all working teams in KTM. This facilitated monitoring of performance of operations and enabled KTM to better manage its resources.

In 2003, KTM's revenue had grown to more than RM40.0 million. In that same year, KTM acquired a piece of land with land area of more than 14,000 sq m in Batu Pahat, for the construction of a new and much bigger factory premises to expand its production capacity.

APPENDIX A: LETTER TO SHAREHOLDERS FROM THE NEW DIRECTORS

In 2005, the textile industry in Malaysia was adversely affected when quota restrictions on global trade in textiles and clothing were abolished pursuant to the World Trade Organisation Agreement on Textiles and Clothing. Before 2005, there were quotas that limited the import of textiles and clothing from developing countries into more developed countries, including countries in Europe, the US and Canada. With the liberalisation of trade in textiles and clothing, suppliers from any country were able to enjoy access to these developed markets without facing high export quota charges. This effectively resulted in increased competition for Malaysian suppliers, particularly from suppliers operating in lower costs developing countries.

In 2006, notwithstanding the increased competition, KTM proceeded with its expansion plans and relocated its apparel manufacturing operations into the KTM Manufacturing Facility. At that time, the factory premises had a built-up area of more than 9,000 sq m and a total of ten (10) production lines. These new premises eventually became the corporate headquarters of the Target Group when it expanded its operations into Cambodia.

In 2007, due to the increased demand for embroidery in apparels, KTM set up OAE as a wholly-owned subsidiary to provide embroidery services to KTM and other apparel manufacturers in Batu Pahat. Due to a gradual drop in demand for embroidery over the years, OAE's business eventually ceased in 2015 and its embroidery operations were shifted to KTM.

In 2009, KTM expanded its functions to provide design services to its customers by introducing a co-creation business model, under which it worked closely with its customers in the initiation, concept and design, and manufacturing, of apparels. See further the Sections 4.3 and 4.4 entitled "Co-creation Business Model" and "Product Origination" respectively of this Target Letter.

In that same year, KTM also began outsourcing the production of some apparel products to third party contract manufacturers in Cambodia. This was due to lower production costs in Cambodia as well as zero tariffs for apparels imported into Europe and Canada from Cambodia.

In 2011, KTM started to move away from the manufacturing of general apparels to focus on a niche segment of apparels, namely nightwear, lounge wear, casual wear and plus sizes apparels for men, women and children. KTM believed that the demand for such apparels are usually less affected by seasonality compared to other apparels.

In that same year, recognising the labour-intensive nature of the sewing of fabric components and the availability and lower costs of manpower in Cambodia, Moon Cambodia was set up to operate a new apparels manufacturing facility in Phnom Penh, Cambodia. The new facility has a built-up area of more than 3,000 sq m and can accommodate up to a total of eight (8) production lines. The establishment of Moon Cambodia allows the Target Group to increase its production capacity and capitalise on the production cost savings in Cambodia.

In 2013, building on the success of the Moon Cambodia facility, Callisto Cambodia was set up to operate another new apparels manufacturing facility in Phnom Penh. This new facility is much bigger than the Moon Cambodia facility, and occupies a built-up area of more than 11,000 sq m. It currently has nineteen (19) production lines in operation and can accommodate up to a total of twenty-one (21) production lines. The site facilitated the significant expansion of the production capacity to meet the increasing customer orders.

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In 2014, at the request of the Target Group's major US customers, Xentika was incorporated in Seychelles to undertake sales to US customers pursuant to the "first sale" program, which enables KTM to remain competitive through lower import costs for its US customers.

In 2015, with a view to raising efficiency and productivity, KTM implemented the Euratex automated apparel hanger conveyor system into its sewing process at the KTM Manufacturing Facility. The Euratex system is a computerised system that tracks and records every stage of production in real time. The Euratex automated apparel hanger conveyor system was subsequently also implemented partially in the Callisto Cambodia manufacturing facility in 2016.

In 2016 and 2017, OAE purchased two (2) plots of land with a total area of more than 21,000 sq m in Batu Pahat with a view to expanding the business of the Target Group upstream into the knitting, dyeing, finishing and printing of fabric. Fabric is the key raw material for the production of apparel products. By producing its own fabrics, the Target Group aims to have better control over its supply of raw materials and their quality to meet customer requirements.

In 2017, OAE commenced construction of the New Fabric Dyeing Facility on one of the two (2) plots of land acquired. Construction is expected to be completed and the dyeing and finishing operations are expected to commence towards the end of December 2018 or January 2019.

3. RESTRUCTURING EXERCISE AND GROUP STRUCTURE

3.1 Restructuring Exercise

Under the Option Agreement, one of the Conditions to Completion is the completion of the Restructuring Exercise.

Details of the Restructuring Exercise are set out below:

3.1.1 Incorporation of Target

On 5 September 2017, the Target was incorporated in Singapore with an issued and paid-up share capital of S\$2 comprising two (2) Target Shares. Mr Lim Siau Hing is the legal and beneficial owner of the two (2) issued Target Shares.

3.1.2 Incorporation of KTH

On 26 January 2018, KTH was incorporated in Malaysia with an issued and paid-up capital of RM1 comprising one (1) ordinary share in the capital of KTH. Mr Lim Siau Hing is the legal and beneficial owner of one (1) issued ordinary share in the capital of KTH. KTH is intended to hold 100% of the issued ordinary shares in the capital of KTM as a wholly-owned subsidiary of the Target after the Restructuring Exercise.

3.1.3 Incorporation of Callisto Singapore

On 5 September 2017, Callisto Singapore was incorporated in Singapore with an issued and paid-up share capital of S\$2 comprising two (2) ordinary shares in the capital of Callisto Singapore. Mr Lim Siau Hing is the legal and beneficial owner of two (2) issued ordinary shares in the capital of Callisto Singapore. Callisto Singapore is intended to hold 100% of the issued ordinary shares in the capital of Callisto Cambodia as a wholly-owned subsidiary of the Target after the Restructuring Exercise.

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3.1.4 Incorporation of Moon Singapore

On 5 September 2017, Moon Singapore was incorporated in Singapore with an issued and paid-up share capital of S\$2 comprising two (2) ordinary shares in the capital of Moon Singapore. Mr Lim Siau Hing is the legal and beneficial owner of two (2) issued ordinary shares in the capital of Moon Singapore. Moon Singapore is intended to hold 100% of the issued ordinary shares in the capital of Moon Cambodia as a wholly-owned subsidiary of the Target after the Restructuring Exercise.

3.1.5 Acquisition of KTM

The Target will purchase 2,400,000 ordinary shares in the capital of KTM, which constitutes 100% of the issued ordinary shares in the capital of KTM, from Mr Lim Siau Hing (after he has purchased the issued shares in the capital of KTM currently held by Mr Lim Vhe Kai so that he will become the sole shareholder of KTM) at an aggregate consideration of RM2.4 million, which will be fully satisfied by the allotment and issue of an aggregate of 2,400,000 ordinary shares in the capital of KTH at RM1 each to the Target. The 2,400,000 ordinary shares in the capital of KTM will be transferred to KTH as nominee of the Target and KTH will, at the same time, allot and issue an aggregate of 2,400,000 Target Shares at RM1 for each Target Share to Mr Lim Siau Hing. See further Section 10.2.2(c) of this Target Letter. The restructuring described above has not been completed as at the Latest Practicable Date.

3.1.6 Acquisition of Callisto Cambodia

Callisto Singapore has purchased 1,000 ordinary shares of US\$1,000 each in the capital of Callisto Cambodia, which constitutes 100% of the issued ordinary shares in the capital of Callisto Cambodia, from Mr Lim Vhe Kai, Mr Chew Chong Kiat, Ms Lim Sin Jet and Mr Tow Eng Lim (who were holding such Callisto Cambodia shares as nominees on behalf of Mr Lim Siau Hing, the beneficial owner of the Callisto Cambodia shares) for an aggregate consideration of US\$1.0 million. This part of the restructuring has been completed as at the Latest Practicable Date.

The consideration will be fully satisfied by the allotment and issue by Callisto Singapore of an aggregate of 1,000,000 ordinary shares in the capital of Callisto Singapore at US\$1 each to the Target. At the same time, the Target will allot and issue an aggregate of 1,000,000 Target Shares at US\$1 each to Mr Lim Siau Hing. See further Section 10.2.2(d) of this Target Letter. This part of the restructuring has not been completed as at the Latest Practicable Date.

3.1.7 Acquisition of Moon Cambodia

Moon Singapore has purchased 1,000 ordinary shares of US\$2,000 each in the capital of Moon Cambodia, which constitutes 100% of the issued ordinary shares in the capital of Moon Cambodia, from Mr Lim Vhe Kai and Mr Chew Chong Kiat (who were holding such Moon Cambodia shares as nominees on behalf of Mr Lim Siau Hing, the beneficial owner of the Moon Cambodia shares) for an aggregate consideration of US\$2.0 million. This part of the restructuring has been completed as at the Latest Practicable Date.

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The consideration will be fully satisfied by the allotment and issue of an aggregate of 2,000,000 ordinary shares in the capital of Moon Singapore at US\$1 each to the Target. At the same time, the Target will allot and issue an aggregate of 2,000,000 Target Shares at US\$1 each to Mr Lim Siau Hing. See further Section 10.2.2(e) of this Target Letter. This part of the restructuring has not been completed as at the Latest Practicable Date.

3.1.8 Acquisition of Xentika

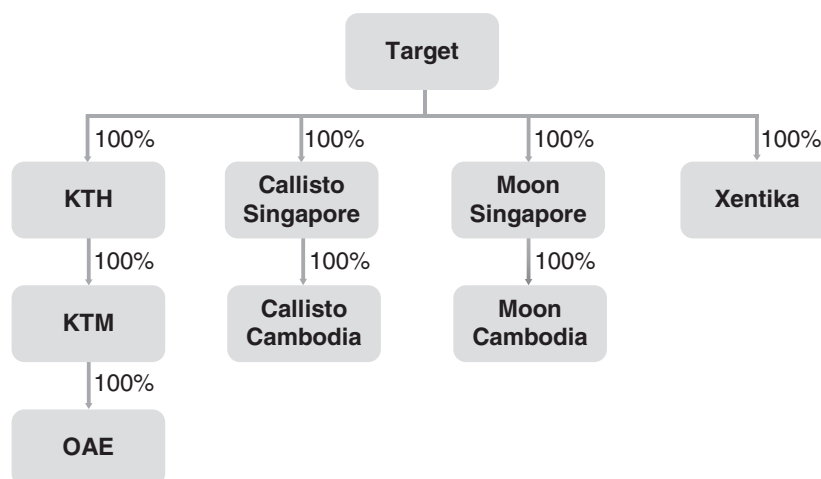
Mr Lim Vhe Kai and Ms Lim Sin Jet, who were holding ten (10) ordinary shares in the capital of Xentika as nominees on behalf of Mr Lim Siau Hing, the beneficial owner of the Xentika shares, have transferred the Xentika shares to Mr Lim Siau Hing on 24 October 2018. This part of the restructuring has been completed as at the Latest Practicable Date.

The Target will purchase ten (10) ordinary shares in the capital of Xentika, which constitutes 100% of the issued ordinary shares in the capital of Xentika, from Mr Lim Siau Hing for an aggregate consideration of US\$10. The Consideration will be fully satisfied by the allotment and issue of an aggregate of ten (10) Target Shares at US\$1 for each Target Share to Mr Lim Siau Hing. See further Section 10.2.2(f) of this Target Letter. This part of the restructuring has not been completed as at the Latest Practicable Date.

The parts of the Restructuring Exercise that have not been completed as at the Latest Practicable Date are, subject to the approval of Shareholders for the Proposed Transactions at the EGM, expected to be completed shortly after the EGM. The completion of the Restructuring Exercise is a condition precedent to Completion, and Completion will not take place if the Restructuring Exercise is not completed. The Target Group is not aware of any reason why the parts of the Restructuring Exercise that have not been completed as at the Latest Practicable Date will not be completed shortly after the EGM.

3.2 Group Structure

The structure of the Target Group, when the Restructuring Exercise is completed after the approval of Shareholders for the Proposed Transactions at the EGM, will be as follows:



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Save as disclosed above, the Target does not have any other subsidiaries, joint venture companies or associated companies.

None of the Target Group Companies is listed on any stock exchange.

None of the New Independent Directors sits on the board of the Target Group's principal subsidiaries based in jurisdictions outside Singapore.

3.3 Target Subsidiaries

As at the Latest Practicable Date, the details of the Target Subsidiaries are as follows:

Name of entity	Date and country of incorporation	Principal business	Issued and paid-up capital	Percentage of effective ownership held by the Target	Principal place of business
KTH	26 January 2018/Malaysia	(i) Buying, selling, renting and operating of self-owned or leased real estate – land; (ii) Manufacture of articles of any textile materials, including knitted or crocheted fabrics; and (iii) Activities of holding companies	RM1	100%	Malaysia
KTM	6 December 1988/Malaysia	Apparel manufacturing	RM2,400,000	100%	Malaysia
OAE	26 March 2007/Malaysia	Operation of a fabric dyeing and finishing plant	RM2,000,000	100%	Malaysia
Callisto Singapore	5 September 2017/ Singapore	Investment holding	S\$2	100%	Singapore
Callisto Cambodia	13 June 2013/ Cambodia	Apparel manufacturing	US\$1,000,000	100%	Cambodia
Moon Singapore	5 September 2017/ Singapore	Investment holding	S\$2	100%	Singapore
Moon Cambodia	19 May 2011/ Cambodia	Apparel manufacturing	US\$2,000,000	100%	Cambodia
Xentika	16 April 2014/ Seychelles	International Business Company	US\$10	100%	Seychelles

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4. BUSINESS OVERVIEW

4.1 Industry Overview

4.1.1 Introduction

The apparel manufacturing industry is a global industry that is highly fragmented, with a large number of manufacturers with different scale of operations located worldwide. A large number of these manufacturers are located in Asia due to, among other things, primarily the availability of manpower and low cost base. The manufactured apparel products are typically exported globally, and particularly to the more developed markets.

The above is borne out by statistics that indicate as follows:

- In 2017, the PRC, Bangladesh, Vietnam and India ranked among the top five (5), and Cambodia ranked the ninth, biggest exporters of clothing in the world.⁽¹⁾ Among the top ten (10), Bangladesh and Cambodia achieved the highest growth rate of approximately 6% from 2015 to 2016.
- In 2017, the EU, the US and Canada were the biggest, second biggest and fifth biggest importers of clothing in the world.⁽¹⁾

More information on the export markets of the EU, the US and Canada is set out below.

Note:

(1) Based on data in the World Trade Statistical Review 2018 released by the World Trade Organisation.

4.1.2 EU

As noted above, the EU was the biggest importer of clothing in the world in 2017. Eurostat⁽¹⁾ statistics indicate that, over a period of ten (10) years from 2007 to 2016:

- (a) The total household consumption expenditure on clothing in the EU has continued to grow gradually, while consumption expenditure on clothing in the UK has grown at a faster pace.

Specifically, the total household consumption expenditure on clothing in the EU has grown from around €307.6 billion in 2007 to around €323.0 billion in 2016⁽²⁾, an increase of approximately 5.0%. In the UK, the total household consumption expenditure on clothing has grown from around €59.3 billion in 2007 to around €68.2 billion in 2016⁽²⁾, an increase of approximately 15.0%.

- (b) The import of articles of apparel and clothing accessories into the EU and UK from countries outside of the EU has been steadily increasing.

Specifically, the import of articles of apparel and clothing accessories⁽³⁾ into the EU from countries outside of the EU has grown from around €61.8 billion in 2007 to around €86.6 billion in 2016⁽⁴⁾, an increase of approximately

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40.1%. In the UK, the import of articles of apparel and clothing accessories into the UK from countries outside of the EU has grown from around €12.6 billion in 2007 to around €14.4 billion in 2016⁽⁴⁾, an increase of approximately 14.3%.

- (c) The import of articles of apparel and clothing accessories into the EU and UK from Cambodia has increased significantly.

Specifically, the import of articles of apparel and clothing accessories into the EU from Cambodia has grown from around €528.7 million in 2007 to around €3.4 billion in 2016⁽⁵⁾, an increase of approximately 543.1%. In the UK, the import of articles of apparel and clothing accessories into the UK from Cambodia has grown from around €122.9 million in 2007 to around €724.9 million in 2016⁽⁵⁾, an increase of approximately 489.8%.

Notes:

- (1) Eurostat is the statistical office of the EU. The numbers cited in this section are based on the 28 member states of the EU. This includes the UK, which is in the process of exiting, but currently remains a part of, the EU.
- (2) Based on the data for “Final consumption expenditure of households by consumption purpose – Clothing” in respect of the EU and UK, accessed on the Eurostat website on 19 December 2018. The data also indicates that the consumption expenditure of households on clothing in the UK dropped slightly to €67.6 billion in 2017, but the same data was not available in respect of the EU.
- (3) This is based on Standard International Trade Classification, Rev. 3, Section 8 (Miscellaneous manufactured articles), Division 84 (Articles of apparel and clothing accessories).
- (4) Based on the data for “EU trade since 1988 by SITC” for import by value in Euros from outside the EU into the EU and from outside the EU into the UK, of products that fall under Standard International Trade Classification 84, accessed on the Eurostat website on 19 December 2018. The data indicates that the import by value in Euros for the same products from outside the EU into the EU had increased from €86.6 billion in 2016 to €87.8 billion in 2017, and from outside the EU into the UK had decreased from €14.4 billion in 2016 to €13.9 billion in 2017.
- (5) Based on the data for “EU trade since 1988 by SITC” for import by value in Euros from Cambodia into the EU and from Cambodia into the UK, of products that fall under Standard International Trade Classification 84, accessed on the Eurostat website on 19 December 2018. The data indicates that the import by value in Euros for the same products from Cambodia into the EU had increased from around €3.4 billion in 2016 to around €3.7 billion in 2017, and from Cambodia into the UK had increased from around €724.9 million in 2016 to €750.8 million in 2017.

4.1.3 US

As noted above, the US was the second biggest importer of clothing in the world in 2017.

A couple of trends in the US demographics is worth noting, being the increase in the ageing population and in the population that is overweight or obese.

In terms of an ageing population, according to statistics of the US Census Bureau, residents aged 65 and above in the US grew from around 35.0 million in 2000⁽¹⁾ to around 50.9 million in 2017⁽²⁾. Based on the above, for the period from 2000 to 2017, there has therefore been an approximately 45.4% increase in the absolute number of residents aged 65 and above. At the same time, the number of residents aged 65 and above as a percentage of the total population has also increased from approximately 12.4% to approximately 15.6% over the same period.

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The ageing population in the US is expected to continue to increase, such trend being largely driven by the baby boomer generation, referred to by the US Census Bureau as persons born between 1946 and 1964. Based on the US Census Bureau, the US population aged 65 and above is projected to increase from around 49.2 million in 2016 to around 94.7 million in 2060⁽³⁾. Based on the above, for the period from 2016 to 2060, the absolute number of residents aged 65 and above is projected to increase by approximately 92.5%. At the same time, the number of residents aged 65 and above as a percentage of the total population is also projected to increase from approximately 15.2% to approximately 23.4% over the same period.

In terms of the population that is overweight or obese, based on statistics from the US Department of Health and Human Services, the percentage of Americans aged 20 and above who were overweight or obese had increased from approximately 56.0% during the period from 1988 to 1994, to approximately 69.5% during the period from 2011 to 2014⁽⁴⁾. The Target Group believes that, taking into account the proportion of overweight and obese Americans, the market for this segment in the US is underserved and demand will grow.

Notes:

- (1) Based on data from the data set “Age Group and Sex: 2010” under the 2000 version of the table on the website of the US Census Bureau – American Factfinder, accessed on 19 December 2018.
- (2) Based on data from the data set “Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States, States, Counties, and Puerto Rico Commonwealth and Municipios: April 1, 2010 to July 1, 2017” on the website of the US Census Bureau – American Factfinder, accessed on 19 December 2018.
- (3) Based on data from the dataset “Projected Age Groups and Sex Composition of the Population – Projections for the United States: 2017-2060” under the section “Population Projections – Population Projections Tables – 2017 National Population Projections Tables” accessed at the US Census Bureau on 19 December 2018.
- (4) Based on “Health, United States, 2016 – With Chartbook on Long-term Trends in Health” published by the US Department of Health and Human Services, Centers for Disease Control and Prevention and National Center for Health Statistics in May 2017. The data reflects individuals with a body mass index (BMI) equal to or exceeding 25.0.

4.1.4 Canada

As noted above, Canada was the fifth biggest importer of clothing in the world in 2017.

Statistics Canada⁽¹⁾ reported that the average household expenditure on clothing in Canada was C\$2,450 in 2002⁽²⁾, and the average household expenditure on clothing and accessories was C\$3,371 in 2016⁽³⁾.

The import of textiles and clothing into Canada has also increased over the years, from around US\$11.5 billion in 2007⁽⁴⁾, to around US\$13.3 billion in 2016⁽⁵⁾. The import of textiles and clothing from Cambodia into Canada has also been increasing in the same period. In 2007, Cambodia was ranked seventh in terms of the import of textiles and clothing into Canada, with import value of around US\$187.3 million⁽⁴⁾. In 2016, Cambodia had moved up to rank fourth in terms of the import of textiles and clothing into Canada, with import value of around US\$757.3 million⁽⁵⁾.

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Notes:

- (1) Statistics Canada is the national statistical office of Canada.
- (2) Based on data in “The Consumer Trends Report” issued by the Office of Consumer Affairs in November 2004, accessed on the Government of Canada website on 19 December 2018.
- (3) Based on data in “Table 11-10-0222-01 Household spending, Canada, regions and provinces” accessed on the Statistics Canada website on 19 December 2018.
- (4) Based on data under the section “Canada Textiles and Clothing Imports by Country and Region 2007” accessed on the World Integrated Trade Solution website on 19 December 2018. The World Integrated Trade Solution is developed by the World Bank in collaboration with the United Nations Conference on Trade and Development and in consultation with organisations such as International Trade Center, United Nations Statistical Division and the World Trade Organisation.
- (5) Based on data under the section “Canada Textiles and Clothing Imports by Country and Region 2016” accessed on the World Integrated Trade Solution website on 19 December 2018.

4.2 Business Overview

The Target Group is engaged in the apparel contract manufacturing business, specialising in nightwear, lounge wear, casual wear and plus sizes apparels for men, women and children, and has more than 30 years of experience in the apparel manufacturing industry. The apparels are exported primarily to customers which are retailers in the EU, US and Canada that sell apparel products under their own brand names. Headquartered in Malaysia, the apparels are manufactured at the KTM Manufacturing Facility in Malaysia and the two (2) Cambodian Manufacturing Facilities in Cambodia. As at the Latest Practicable Date, these manufacturing facilities collectively operate a total of 35 production lines.

The Target Group implements a co-creation business model under which it is involved in the initiation, concept and design, and manufacturing of apparels in close collaboration with its customers. Under this business model, the Target Group identifies and anticipates fashion trends, market direction and consumer preferences, and is involved in product initiation, concept and design, raw material development and sourcing, prototype making, and finalising product specifications in preparation for manufacturing. This enables the Target Group to provide a one-stop value-added platform to its customers from product origination, product execution to product finalisation in an efficient and cost-effective manner and in accordance with customers’ requirements.

The Target Group focuses on manufacturing the following categories of apparels:

- Nightwear and lounge wear

Nightwear refers broadly to clothes that are designed to be worn in bed and/or while sleeping. Lounge wear refers broadly to casual clothes suitable for wearing at home, and are usually cosy, comfortable and fashionable. The Target Group’s main customer for nightwear and lounge wear is UK company, Matalan Retail Limited, which has been a customer of the Target Group since 1993. The Target Group also manufactures private label nightwear for US company, Komar Brands, Inc., including brands such as Carole Hochman, DKNY, Jockey, Lauren by Ralph Lauren and Nautica. In 2015, the Target Group expanded into the production of infants’ and children’s nightwear for Carter’s Inc., and further expanded into the European market in 2016 by establishing business relationships with Hunkermoller International B.V., a lingerie and nightwear company from the Netherlands.

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- Casual wear for seniors

Casual wear refers broadly to clothes that are developed for casual and non-formal occasions, featuring fashionable design to emphasise personal expression. In particular, the Target Group specialises in the manufacture of casual wear for seniors typically aged 51 and above. The Target Group's main customers for such apparels include Bluestem Brands, Inc., which has a portfolio of brands targeted at senior consumers, including Blair and Haband.

- Casual wear for women

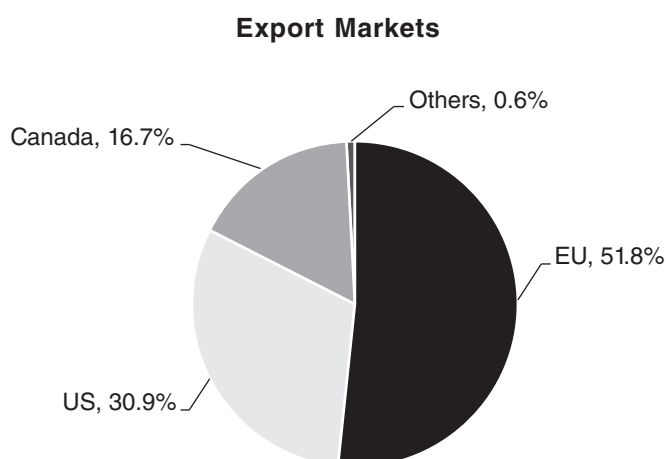
The Target Group also manufactures casual wear for women. The Target Group's major customers for such apparels include Matalan Retail Limited and Ernsting's Family GMBH & Co. KG.

- Plus sizes apparels

Plus sizes apparels refer to apparels that are proportioned specifically for people whose body sizes are larger than the average person's body size, that is, usually US size 14 and above. The Target Group's main customer for plus sizes apparels is Fullbeauty Brands, Inc.

The major customers of the Target Group include Matalan Retail Limited, Bluestem Brands, Inc. and Komar Brands, Inc., which collectively contributed approximately 81.0%, 73.7%, 62.9% and 69.5% of the total revenue of the Target Group in FY2015, FY2016, FY2017 and 1H2018 respectively.

For illustrative purposes, the breakdown of the Target Group's sales in key export markets in FY2017 was as follows:



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The Target Group is constructing the New Fabric Dyeing Facility in Batu Pahat, Johor, Malaysia, for the purpose of expanding the business of the Target Group upstream into the knitting, dyeing, finishing and printing of fabric, which is the key raw material of a finished apparel product. The expansion into upstream production is intended to allow the Target Group to have an integrated supply chain where it will have a better control over the quality of the raw materials and, therefore, the quality of the finished apparel product. The New Fabric Dyeing Facility is expected to commence its fabric dyeing and finishing operations sometime in end December 2018 or January 2019.

4.3 Co-creation Business Model

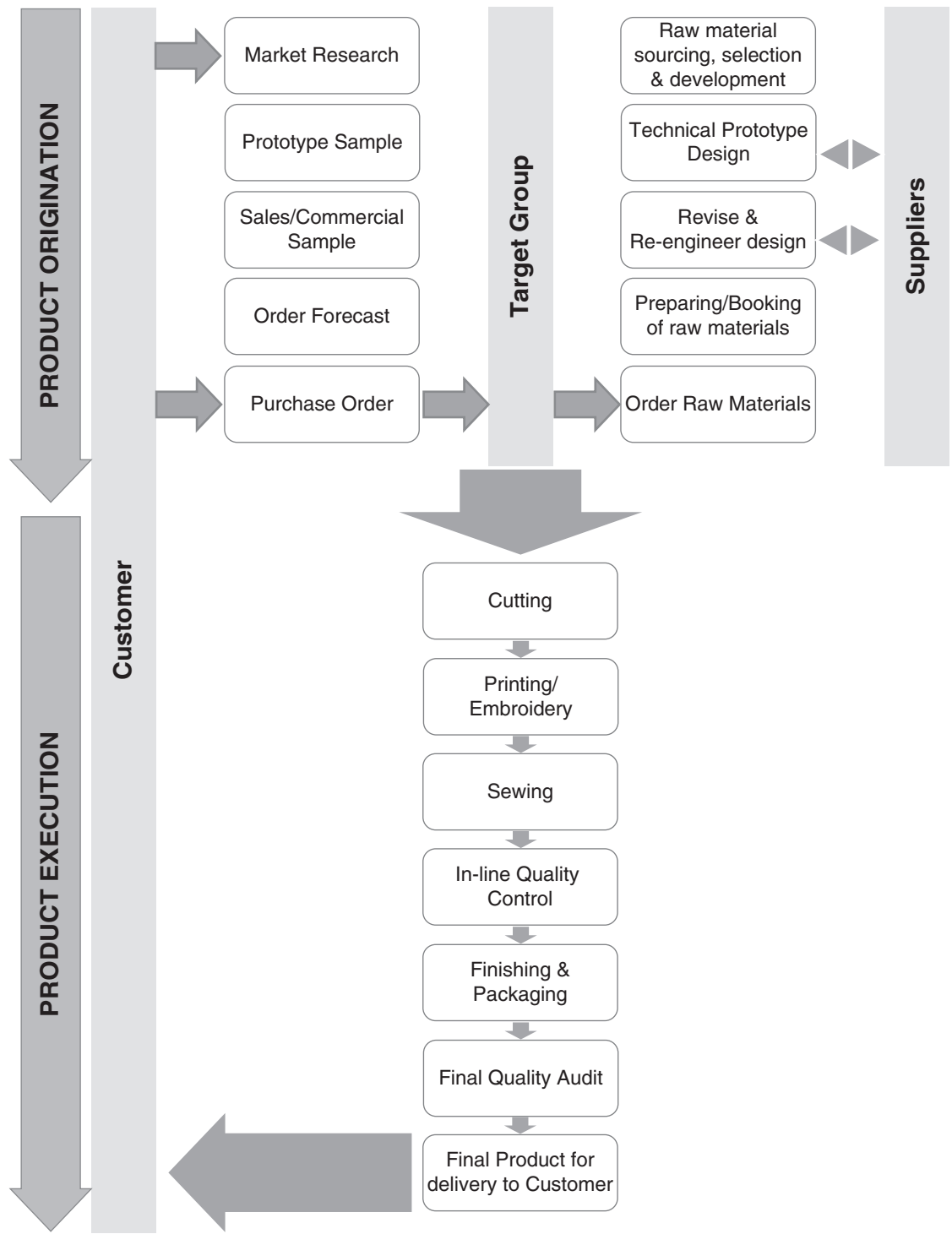
The Target Group adopts a co-creation business model whereby it is able to offer its customers a one-stop value-added platform by giving them the right product at the right time and at the right costs.

The co-creation business model involves the Target Group creating a product in close collaboration with its customers. Leveraging on its knowledge of fashion trends, market direction and consumer preference as well as strong production capabilities, the Target Group is involved in both the product origination phase, during which a product is first conceptualised, and the product execution phase, during which the concept is eventually turned into the finished apparel product that is sold by its customers to consumers.

The product origination phase involves extensive discussions with customers on product concept and design, raw material sourcing and application and prototype making, before manufacturing the apparel products at the Target Group's manufacturing facilities in Malaysia or Cambodia during the product execution phase.

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A diagrammatic representation of this co-creation business model, illustrating the two critical phases of product origination and product execution, is set out as follows:



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4.4 Product Origination

The product origination process takes place in the Malaysian headquarters of the Target Group, and is described below:

4.4.1 Product initiation

The co-creation of a product may be initiated by the customer approaching the Target Group with a product concept. The Target Group may also identify certain trends and directions and reach out to a customer to discuss certain product concepts. Critical to this process is the extensive knowledge of the Target Group's sales and marketing as well as merchandising teams of fashion trends, market direction and customer preferences in the markets to which its products are exported (as to which see further Section 4.13 entitled "Research and Development" of this Target Letter). Through its considerable market knowledge, the Target Group will add value and is able to engage in extensive collaborative discussions with the customer on product concept and design.

The Target Group uses computer-aided design software to translate product concept into design and produce computerised sketches of the product design. The initial product design is usually modified, improved and fine-tuned in consultation with the customer.

Integral to this process of product concept and design is the selection and development of the appropriate fabric for the product. In this regard, the Target Group is well-positioned to advise its customers given its depth of technical knowledge of different fabrics. The type, properties and specifications of the fabric are discussed and determined in close consultation with the customer. The Target Group will simultaneously be working with potential suppliers on raw material selection and development for the product.

4.4.2 Prototype sample and commercial sample

The process of translating a product design into a prototype product sample and then commercial product sample is a continuous one that involves consultation between the Target Group and the customer, and between the Target Group and the relevant suppliers.

The process typically starts with the technical development of the fabric for the product. The Target Group will work with the relevant suppliers to build fabric prototypes for the product. The prototype fabric will be sent to third party laboratories for testing of certain key properties and specifications, including fabric composition, shrinkage, colour fastness and pilling resistance. The laboratory tests will also recommend washing instructions and care labels for the fabric tested.

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At an appropriate stage in the process, the Target Group will build prototype samples of the product using the prototype fabric. At the same time, based on assessment of the prototype sample product, the properties and specifications of the prototype fabric may be revised and re-engineered as appropriate to better suit the product.

The Target Group will eventually build commercial samples of the product, which will be modified and fine-tuned in consultation with the customer. As part of the assessment process, the commercial sample product will be sent to third party laboratories for further testing, including the after-wash apparel appearance assessment.

4.4.3 Preparation for production

Once the commercial sample product has been agreed with the customer, the customer will usually provide the Target Group with non-binding order forecasts. Based on these forecasts and recommendations from the technical design team on fabric consumption for the production, the Target Group will prepare or book the relevant quantity of raw materials on a preliminary non-binding basis. Upon the customer formally placing a purchase order for the product, the Target Group will proceed to place a formal order for the relevant raw materials.

At the same time, the Target Group's technical design team provides technical advice on fabric consumption for the product with the use of a computer-aided design software. With such software, the technical design team will prepare silhouette drawings for the layout of the individual pieces of fabrics that form the various components of an apparel according to predetermined specifications in a manner which optimises fabric consumption. The industrial engineer team will then recommend suitable production methods for each product with the aim of maximising productivity, minimising production costs and reducing raw material wastage.

4.5 **Product Execution**

The product execution process takes place in the KTM Manufacturing Facility in Malaysia and the Cambodian Manufacturing Facilities in Cambodia, and is described below:

4.5.1 Cutting

Raw material delivery

The production process begins with the delivery of the raw materials to the relevant manufacturing facility. Each delivery of fabrics and accessories is checked against the quantity ordered by the Target Group.

The Target Group will send random samples of the delivered fabrics for a second round of testing at third party laboratories. This ensures that the quality of the fabric used for mass production is consistent with that of the prototype fabric provided earlier to the Target Group.

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Visual test and steam pressing

Before any fabric is cut, it will be subject to a visual test to identify and remove any defective fabric. Depending on the type of fabric, it may also be steam-pressed to reduce potential shrinkage prior to being used in the manufacturing process.

Cutting process

An appropriate number of pieces of fabric will be stacked together and then cut into individual pieces in accordance with the silhouette design created by the computer-aided design software. Depending on the type and nature of the fabric, the design of the pieces and degree of precision required, the cutting is done either manually by skilled operators or with the use of automated cutting machines.

4.5.2 Printing/Embroidery

Where required, embroidery and printing of the fabric will be undertaken, either in-house within the Target Group or outsourced to third party sub-contractors.

4.5.3 Sewing

Planning

The manufacturing of an apparel involves essentially sewing different pieces of fabric to make up the entire apparel. The number of pieces of fabric, the design, the additional raw materials (e.g. thread and accessories) and method of sewing differ from product to product. The Target Group will start by planning and developing the most efficient and quickest sewing and handling methods for completing the manufacture of a particular product.

The planning and development process involves, among other things, determining the most efficient production methods, the stages of production, the number of sewers and the required manufacturing time, which would in turn be used to establish the production capacity and production target of each production line. The process also includes determining the order in which sewing of the different components of the product will take place, setting up each work station in the production line for such sewing, and placing the appropriate sewers with the appropriate training and skills into each station so as to maximise productivity. Prior to starting the sewing process, the methods of sewing the different components of the product, along with samples of the final product, are explained and demonstrated to the sewers so as to ensure a high degree of uniformity and consistency in the products.

Sewing

During the sewing process, each component that makes up the product will be sewed at one work station in the production line, before the product is moved on to the next work station for sewing of the next component. The process will continue until sewing of the entire product is completed.

The Target Group has implemented both automated as well as traditional production line systems for the sewing process, as described below.

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Automated hanger conveyor system

The Target Group implemented the Euratex automated apparel hanger conveyor system in the KTM Manufacturing Facility in 2015 and partially in the Cambodian Manufacturing Facility that is operated by Callisto Cambodia in 2016.

The automated hanger conveyor system is a computerised system that can be programmed and configured in accordance with the production plan of the particular product as described above in Section 2.2 entitled “History and Development” of this Target Letter.

As mentioned above in this Section, each production line consists of a number of different work stations for different sewing steps involved in the manufacture of the particular product. The automated hanger conveyor system functions as a conveyor system that moves the components from one work station to the next station. This system improves the work flow among the sewers in the production and reduces production bottleneck, increases overall productivity and reduces manpower requirements. In addition, the ability to track the real-time production rate of the sewers, both individually and in aggregate, enables the Target Group to monitor the sewers’ efficiency level and ensure that the product orders are on schedule for timely delivery.

Traditional progressive bundle system

The Cambodian Manufacturing Facility operated by Moon Cambodia and part of the Cambodia Manufacturing Facility operated by Callisto Cambodia continue to operate the traditional production lines.

The traditional production line implements the progressive bundle system, under which a certain number of the relevant components are bundled together, sewed at one work station and manually passed down the sewing line to the next work station for sewing. The stage of completion of the sewing for each bundle of apparels is monitored manually. The total number of completed products is tallied and updated regularly to help the sewing team keep track of its progress and efficiency.

4.5.4 In-line quality control

The Target Group implements a two-track in-line quality control system with a view to ensuring that the quality of its products meets the specifications, requirements and standards of its customers.

During the production process, the in-line quality controller of each production line will conduct checks on the sewing process to ensure that the different components are being sewed in accordance with the requirements of the particular product. Each manufacturing facility also has a sewing leader who conducts random checks of the components being sewed at each production line.

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In addition, there is an end-line quality controller at the end of each production line. The end-line quality controller will conduct a visual check of each and every single piece of the finished apparel product that is completed by the production line. The product is checked against the product design, size and construction, and stray threads are also removed at the same time.

If any finished apparel product is found to be defective, it will be identified and set aside. The in-line quality controller will assess the specific defect and ascertain whether it can be rectified. If it can be rectified, the sewer responsible for the particular component which is defective will be required to rectify the defect.

4.5.5 Finishing and packaging

Needle control and needle detection

The Target Group has a strict needle control policy under which every broken needle during the sewing process must be identified and accounted for before a new needle may be issued to a sewer. This ensures that no broken needle is being left inside any apparel.

The Target Group has installed metal detectors through which each completed apparel will be required to pass. Infants' and children's apparels are passed through at least two (2) metal detectors which are calibrated with higher sensitivity. In the event that any needle is detected in an apparel, the metal detector will alert the supervisor to conduct a thorough check on that apparel.

Folding, Finishing and Packaging

The completed products are steam-ironed, tagged and folded before they are packed into individual plastic sheets. The apparels go through a final metal detector test before entering the packaging area. In the packaging area, the products will be packed into cartons according to customers' handling and shipping requirements. Each carton will be labelled, checked and tallied before being sealed.

4.5.6 Final quality audit

Before the cartons are loaded onto the containers for shipment to customers, the finished apparels are subject to a final inspection and/or audit check, where the quality assurance team of the Target Group and/or certain customers will carry out sampling checks based on agreed standards on different aspects of the apparels including measurement, sewing quality, colour tone and printing. Any finished apparel products which have defects or do not meet the requisite quality standards and specifications will be set aside, either to be re-processed, where practicable, or disposed of.

Apart from the quality control checks on the final products, the Target Group has, throughout the entire production process, put in place stringent quality control measures which are elaborated on in Section 4.12 entitled "Quality Assurance" of this Target Letter.

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4.6 Production Capacity and Utilisation Rates

As at the Latest Practicable Date, the Target Group operates the following three (3) manufacturing facilities where it manufactures its apparel products:

No.	Location ⁽¹⁾	Approximate land area/built-up area (sq m)	Tenure
1.	No. 3A Jalan Wawasan 16, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat Johor, Malaysia	14,630 (land area)	Leasehold of 60 years expiring on 28 August 2067
2.	Srae Rachcheak Village, Sangkat Samraong Kraom, Khan Por Senchey, Phnom Penh, Cambodia	11,250 (built-up area)	Lease from 2 July 2018 to 31 December 2024
3.	Phum Chung Ruk, Sangkat Trapeang Krasang, Khan Dang Kao, Phnom Penh, Cambodia	3,000 (built-up area)	Lease from 2 July 2018 to 31 December 2024

Note:

(1) Please see further Section 4.14 entitled “Properties and Fixed Assets” of this Target Letter.

As of the Latest Practicable Date, these three (3) manufacturing facilities collectively have a total of around 1,786 production workers operating a total of thirty-five (35) production lines.

The estimated annual production capacity and the utilisation rates of the Target Group’s manufacturing facilities for FY2015, FY2016 and FY2017 and for 1H2018 are as follows:

Location	Number of Sewers	Annual Production Capacity (in standard minute value) '000	Annual Production Utilisation (in standard minute value) '000	Percentage of Utilisation%
FY2015				
Malaysia	300	52,380	47,923	91.5
Cambodia	630	98,280	80,323	81.7
Total	930	150,660	128,246	85.1
FY2016				
Malaysia	240 ⁽¹⁾	41,904	35,996	85.9
Cambodia	690	107,640	88,476	82.2
Total	930	149,544	124,472	83.2

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Location	Number of Sewers	Annual Production Capacity (in standard minute value) '000	Annual Production Utilisation (in standard minute value) '000	Percentage of Utilisation%
FY2017				
Malaysia	240 ⁽¹⁾	41,904	31,639	75.5
Cambodia	750	117,000	100,344	85.8
Total	990	158,904	131,983	83.1
1H2018				
Malaysia	240 ⁽¹⁾	41,904	32,895	78.5
Cambodia	785	122,460	107,289	87.6
Total	1,025	164,364	140,184	85.3

Note:

- (1) The decrease in the number of sewers in Malaysia is due to the implementation of the Euratex automated apparel hanger conveyor system into its sewing process to increase efficiency and productivity.

The Target Group's production capacity in the Cambodian Manufacturing Facilities has increased, while the production capacity in the KTM Manufacturing Facility has decreased over the recent three (3) completed financial years and the 6-month period ended 30 June 2018. The production capacity in the Cambodian Manufacturing Facilities was increased in order to meet the rise in sales orders, while the decrease in production capacity in the KTM Manufacturing Facility was due to a shortage of foreign workers.

The utilisation rate of the KTM Manufacturing Facility has decreased over the recent three (3) completed financial years and the 6-month period ended 30 June 2018. The decrease in utilisation rate was due to the reduction in the number of workers working in the KTM Manufacturing Facility over time following the implementation of the Euratex automated apparel hanger conveyor system. As the utilisation rate is calculated based on man-hours, the reduction in the number of workers resulted in a decrease in utilisation rate. Notwithstanding that the utilisation rate has decreased, the production output of the KTM Manufacturing Facility was not affected as the efficiency had increased.

From time to time, the Target Group outsources the production of some of its apparel products to contractors in Malaysia and Cambodia, mainly to provide the Target Group with the flexibility to manage its production capacity. In particular, depending on the nature of the products and its own production capacity, the Target Group may outsource part of its production to contractors during the peak periods when higher sales orders are recorded. See further Section 4.21 entitled "Seasonality" of this Target Letter. As at the Latest Practicable Date, the Target Group has some outsourcing contracts in Malaysia but does not have any outsourcing or sub-contracting contracts in Cambodia.

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The Target Group is currently in the course of expanding its business upstream by undertaking fabric knitting, dyeing, finishing and printing. See further Section 7.4.1 entitled “Expansion upstream into the knitting, dyeing, finishing and printing of fabric” of this Target Letter. The details of the New Fabric Dyeing Facility are as follows:

No.	Location ⁽¹⁾	Approximate land area/built-up area (sq m)	Tenure
1.	HS(M) 2923 PTD 24912 Mukim Linau, Daerah Batu Pahat, Johor	17,498 (land area)	Freehold

Note:

(1) Please see further Section 4.14 entitled “Properties and Fixed Assets” of this Target Letter.

The construction of the New Fabric Dyeing Facility is expected to be completed, and the Target Group is expected to commence its fabric dyeing and finishing operations, towards the end of December 2018 or January 2019 with an initial dyeing and finishing capacity of approximately 100,000 kg per month. At the same time, the Target Group intends to kick-start its fabric knitting activities by purchasing a small number of knitting machines and achieve a knitting capacity of approximately 50,000 kg per month. The Target Group intends to raise the dyeing and finishing capacity to approximately 150,000 kg per month by December 2019, and approximately 200,000 kg per month by December 2020. The Target Group also intends to continue to raise its knitting capacity and construct a new fabric knitting factory in 2022, which is currently expected to commence operations sometime in 2024.

4.7 Sales and Marketing

The Target Group’s overall sales and marketing activities are headed by Mr Lim Vhe Kai, who will be a New Executive Director and CEO upon Completion. Mr Lim Vhe Kai is assisted by a sales and marketing team comprising three (3) members as well as three (3) merchandising teams comprising a total of thirty-six (36) members as at the Latest Practicable Date.

The Target Group’s primary sales and marketing approach is based on fostering long-term and strong relationships with its existing customers, with a focus on customer retention and increasing the range and volume of products that are sold to existing customers. This is achieved primarily by visiting existing customers at least twice a year to discuss fashion trends, market direction and customer preferences and also to propose new concepts and designs to customers with a view to the co-creation of apparel products together with the customers.

The sales and marketing team will be involved in the initial stage of pitching the concept and design to the customer. One of the merchandising teams will eventually become involved in the process when the discussion with the customer moves beyond the product concept and design into the fabric to be used for the particular product. The relevant merchandising team will liaise with both the customer as well as the Target Group’s suppliers on the technical development of the fabric. This includes building the fabric prototype and eventually prototype and commercial sample prototype of the apparel product using the fabric prototype, in preparation for the production process.

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Apart from the foregoing, the Target Group develops new customers primarily through referrals and recommendations from existing customers and other industry contacts. The process of developing and cultivating new customers is undertaken by Mr Lim Vhe Kai and the sales and marketing team. The typical process will involve preliminary meetings with the potential customer, leading to the potential customer inspecting the Target Group's manufacturing facilities and production capability and eventually the discussions on the manufacturing of specific products under the co-creation business model.

4.8 Major Customers

The Target Group's customers are primarily retailers in the EU, US and Canada that sell apparel products under their own brands. The Target Group does not engage in any direct retail sales to consumers.

The Target Group's major customers whose purchases constituted 5.0% or more of the Target Group's revenue in FY2015, FY2016, FY2017 and 1H2018 are set out below:

Name of Customer	Percentage of revenue (%)			
	FY2015	FY2016	FY2017	1H2018
Matalan Retail Limited ⁽¹⁾	39.1	36.4	38.7	31.0
Bluestem Brands, Inc. ⁽²⁾⁽³⁾	25.2	23.7	16.5	24.3
Komar Brands, Inc.	16.7	13.6	7.7	14.2
Carter's, Inc. ⁽¹⁾	3.5	7.4	10.2	7.4
Fullbeauty Brands, Inc. ⁽⁴⁾	2.9	2.6	7.4	6.8
Hunkemoller International B.V. ⁽¹⁾	—	3.2	6.3	1.0
Ernsting's Family GMBH & Co. KG	—	1.1	6.0	4.6
Kayser-Roth Corporation (Canada)	5.6	5.8	3.8	3.0

Notes:

- (1) The decrease in percentage of revenue contributed by Matalan Retail Limited, Carter's, Inc. and Hunkemoller International B.V. from FY2017 to 1H2018 was due to substantial increases in revenue generated from Bluestem Brands, Inc. arising from the cessation of its Taiwan supplier's operations, and Komar Brands, Inc as a result of a newly acquired licence from the brand "Joe Fresh".
- (2) Including sales from Orchard Brands Corporation.
- (3) The decrease in percentage of revenue contributed by Bluestem Brands, Inc. from FY2016 to FY2017 was due to substantial increases in revenue generated from Hunkemoller International B.V. and Ernsting's Family GMBH & Co. KG.
- (4) The increase in percentage of revenue contributed by Fullbeauty Brands, Inc. from FY2016 to FY2017 was due to the elimination of the middleman and direct selling to Fullbeauty Brands, Inc.

As is common in the contract apparel manufacturing industry, and in line with the Target Group's sales and marketing approach of focusing on customer retention and increasing the range and volume of products that are sold to existing customers, the Target Group is reliant to some extent on several major customers. In FY2015, FY2016, FY2017 and 1H2018, the top three (3) customers of the Target Group accounted for approximately 81.0%, 73.7%, 65.4% and 69.5% respectively of its total revenue.

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However, the Target Group believes that its relationship with its major customers is stable. Matalan Retail Limited has been a customer of the Target Group since 1993 and has grown over the years to become the biggest customer of the Target Group. Each of Bluestem Brands, Inc., Fullbeauty Brands, Inc. and Kayser-Roth Corporation has been customers of the Target Group for more than ten (10) years, while Carter's, Inc. has been a customer of the Target Group for more than five (5) years. In addition, to the best of the knowledge of the New Directors, the Target Group is also one of the top ten (10) suppliers of Matalan Retail Limited and Bluestem Brands, Inc.

In addition, the Target Group has been working to expand and diversify its customer base. For instance, the Target Group's sales to Fullbeauty Brands, Inc., Hunkemoller International B.V. and Ernsting's Family GMBH & Co. KG have gradually increased from FY2015 to FY2017 so that they have become major customers of the Target Group in FY2017. The proportion of the Target Group's total revenue derived from its top three (3) customers has also decreased steadily from FY2015 to FY2017 (although it has increased slightly from FY2017 to 1H2018). The Target Group intends to continue increasing sales to these new major customers and further expand and diversify its customer base.

As is common in the apparel industry, the Target Group does not enter into long-term agreements with its customers. Instead, purchases from customers are made on a purchase order basis. However, due to the reasons set out above, the volume of sales to the Target Group's major customers remains generally stable.

Save as disclosed above, no other customer accounts for 5.0% or more of the Target Group's revenue in FY2015, FY2016, FY2017 or 1H2018.

Save as disclosed above, as at the Latest Practicable Date, the New Directors are of the opinion that the business or profitability of the Target Group is not dependent on any particular industrial, commercial or financial contract with any customer.

To the best of the New Directors' knowledge, as at the Latest Practicable Date, they are not aware of any information or arrangements which would lead to a cessation or termination of the Target Group's current relationship with any of the major customers.

As at the Latest Practicable Date, none of the New Directors or Substantial Shareholders of the Target Group or their respective associates has any interest, direct or indirect, in any of the Target Group's major customers set out above.

4.9 Major Suppliers

The principal raw material used in the Target Group's production process is fabric. The key fabrics used are jersey, interlock, fleece, rib knit fabric and hacci sweater knit. The other raw materials include accessories such as threads, labels, buttons, zips, hangtags, stickers and ribbons. In FY2015, FY2016, FY2017 and 1H2018, raw materials accounted for approximately 74.7%, 72.8%, 73.3% and 76.2% respectively of the Target Group's cost of sales, where fabric is the key raw material used by the Target Group.

The Target Group is selective in its choice of suppliers. In its selection of suppliers and making of order allocations amongst the suppliers, the Target Group takes into consideration, among other things, a supplier's product quality, price, reliability and speed of delivery. The selection of suppliers will also depend on the types of fabrics and accessories required based on the product specifications of customers, seasonality and changing design trends. The Target Group also reviews the prices of its raw materials regularly and enters into negotiations with its suppliers when necessary to minimise its costs of production.

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The Target Group's major suppliers accounting for 5.0% or more of its total purchases in FY2015, FY2016, FY2017 and 1H2018 are set out below:

Name of Supplier	Raw material	Percentage of total purchases (%)			
		FY2015	FY2016	FY2017	1H2018
Honourbuy Fabrics Co. Ltd	Fabric	11.9	20.2	28.6	27.4
Main Chief Knitting Co., Ltd.	Fabric	23.0	17.1	7.8	6.2
Rengitex Trading Pte Ltd and Creative Knit Sdn Bhd ⁽¹⁾	Fabric	5.5	6.6	2.7	6.0
Swift Success International Limited and Kunshan Prosperity Precision Textiles Co., Ltd ⁽²⁾	Fabric	5.9	4.2	3.3	2.3
Well Blessed International Limited	Fabric	–	1.1	3.2	10.3
Winbright (M) Sdn Bhd	Fabric	6.4	4.2	1.8	0.8

Notes:

- (1) Rengitex Trading Pte Ltd and Creative Knit Sdn Bhd are affiliated by way of common ownership.
- (2) Swift Success International Limited and Kunshan Prosperity Precision Textiles Co., Ltd are affiliated by way of common ownership.

The supply of fabric from Honourbuy Fabrics Co. Ltd to the Target Group has increased steadily from FY2015 to FY2017, as prices of fabric offered were competitive and Honourbuy Fabrics Co. Ltd was able to meet the Target Group's increasing demands and stringent requirements for quality fabric. The Target Group reduced purchases of fabric from other suppliers such as Main Chief Knitting Co., Ltd. from FY2015 to 1H2018 due to less competitive prices of their fabric.

Notwithstanding the above, the New Directors are of the view that the Target Group is not materially dependent on any of its major suppliers, including Honourbuy Fabrics Co. Ltd. The Target Group will typically place an order for raw materials only for the manufacture of specific apparel products for which the customer has placed a firm order. The Target Group generally does not enter into long-term or exclusive agreements with any of its suppliers. This provides the Target Group with the flexibility to evaluate and select suppliers who are able to provide high quality products and materials on favourable terms. The Target Group also maintains alternative suppliers from whom it purchases its raw materials. In view of the foregoing, the New Directors believe that the Target Group's business and profitability is not dependent on any particular industrial, commercial or financial contract with any supplier.

Save as disclosed above, there is no other supplier who accounted for 5.0% or more of the Target Group's total purchases in FY2015, FY2016, FY2017 or 1H2018.

To the best of the New Directors' knowledge, as at the Latest Practicable Date, they are not aware of any information or arrangements which would lead to a cessation or termination of the Target Group's current relationship with any of its major suppliers.

As at the Latest Practicable Date, none of the New Directors or Substantial Shareholders of the Target Group or their respective associates has any interest, direct or indirect, in any of the Target Group's major suppliers set out above.

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4.10 Credit Management

4.10.1 Credit terms to customers

The Target Group generally extends credit terms of 30 to 90 days to its customers from the date of its invoice. Credit terms are typically agreed before a sales order is confirmed and vary depending on, among other things, the customer involved and the size and nature of the order.

The Target Group's average trade receivables' turnover days in FY2015, FY2016, FY2017 and 1H2018 were as follows:

	FY2015	FY2016	FY2017	1H2018
Average trade receivables' turnover (days)	43 ⁽¹⁾	39 ⁽¹⁾	55 ⁽¹⁾	74 ⁽²⁾

Notes:

- (1) The average trade receivables' turnover is calculated based on the average opening and closing trade receivables balances of the relevant financial year divided by the corresponding revenue multiplied by 365 days.
- (2) The average trade receivables' turnover is calculated based on the average opening and closing trade receivables balances of the relevant financial period divided by the corresponding revenue multiplied by 183 days.

The Target Group's average trade receivables' turnover days increased from 39 days in FY2016 to 74 days in 1H2018 due to longer credit terms being granted to certain new and existing customers.

To manage its exposure to credit risk of its customers, the Target Group has purchased trade credit insurance against any loss arising from the inability of certain specific major customers to make payment to the Target Group when due.

The Target Group's provision for doubtful receivables charged to profit or loss for FY2015, FY2016, FY2017 and 1H2018, as set out below, were not material:

	FY2015	FY2016	FY2017	1H2018
Provision for doubtful receivables (RM)	–	148,000	–	12,000
As a percentage of revenue (%)	–	0.09	–	0.01
As a percentage of profit before tax (%)	–	1.35	–	0.51

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The Target Group's bad debts written off to profit or loss for FY2015, FY2016, FY2017 and 1H2018 were as follows:

	FY2015	FY2016	FY2017	1H2018
Bad debts written off (RM)	–	–	27,000	46,000
As a percentage of revenue (%)	–	–	0.01	0.04
As a percentage of profit before tax (%)	–	–	0.21	1.94

The New Directors are of the view that the Target Group's provision for impairment of trade receivables and/or bad debts written off are sufficient. To the best of their knowledge, the New Directors are not aware of any information or development which may require the Target Group to make additional provision for impairment of trade receivables and/or bad debts.

As at the end of 1H2018, the Target Group's trade receivables (after provisions for doubtful receivables) were around RM38.7 million, all of which have been collected as at the Latest Practicable Date.

4.10.2 Credit terms from suppliers

Payment terms granted by the Target Group's suppliers vary from supplier to supplier and are dependent on, amongst others, its relationships with the suppliers and the size of the transactions. In general, the suppliers grant the Target Group credit terms of between 30 to 90 days. However, new or overseas suppliers may require payments on or before delivery.

The Target Group's average trade payables' turnover days in FY2015, FY2016, FY2017 and 1H2018 were as follows:

	FY2015	FY2016	FY2017	1H2018
Average trade payables' turnover (days)	48 ⁽¹⁾	47 ⁽¹⁾	53 ⁽¹⁾	90 ⁽²⁾

Notes:

- (1) The average trade payables' turnover is calculated based on the average of the opening and closing trade payables balances of the relevant financial year divided by the corresponding cost of purchases multiplied by 365 days.
- (2) The average trade payables' turnover is calculated based on the average of the opening and closing trade payables balances of the relevant financial period divided by the corresponding cost of purchases multiplied by 183 days.

The Target Group's average trade payables' turnover days increased from 47 days in FY2016 to 90 days in 1H2018 as a result of the Target Group's ability to negotiate for longer credit terms from its suppliers.

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4.11 Inventory Management

The Target Group's inventories consist of raw materials, work-in-progress and finished goods. Due to the business model of the Target Group whereby raw materials are ordered and apparel products are manufactured only after the purchase order has been confirmed by the customer, it does not usually maintain any significant level of inventories.

The Target Group typically purchases raw materials (including fabric and accessories) after the customers have placed firm orders for the products. As such, there is usually minimal build-up of raw materials. The Target Group's work-in-progress consists of apparels which are in the course of the manufacturing process, including cut pieces of fabric and apparels which have not been completely sewn or packed. The Target Group's finished goods consist of completed apparel products that are pending delivery to customers.

In FY2015, FY2016, FY2017 and 1H2018, the value of the Target Group's inventories accounted for approximately 44.0%, 39.0%, 31.9% and 55.9% respectively of its total current assets. In FY2015, FY2016, FY2017 and 1H2018, raw materials accounted for approximately 25.2%, 21.8%, 54.4% and 37.4% respectively of its total inventories, and work-in-progress and finished goods accounted for approximately 74.8%, 78.2%, 45.6% and 62.6% respectively of its total inventories.

The Target Group's average inventory turnover days in FY2015, FY2016, FY2017 and 1H2018 were as follows:

	FY2015	FY2016	FY2017	1H2018
Average inventory turnover (days) ⁽¹⁾	74 ⁽¹⁾	71 ⁽¹⁾	56 ⁽¹⁾	101 ⁽²⁾

Notes:

- (1) The average inventory turnover days is calculated based on the average opening and closing inventory balances of the relevant financial year divided by the corresponding cost of sales multiplied by 365 days.
- (2) The average inventory turnover days is calculated based on the average opening and closing inventory balances of the relevant financial period divided by the corresponding cost of sales multiplied by 183 days.

The Target Group's average inventory turnover days decreased from 74 days in FY2015 to 56 days in FY2017 due to shorter lead time for production and delivery. The Target Group's average inventory turnover days increased from 56 days in FY2017 to 101 days in 1H2018 as the Target Group built up stocks in raw materials to cater for an increase in sales in the second half of the year arising from firm orders secured from its customers.

During the Periods Under Review, the Target Group did not experience inventory obsolescence.

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4.12 Quality Assurance

4.12.1 Introduction

The Target Group believes that quality and reliability is essential to its continued growth and success, and accords considerable emphasis towards ensuring the quality and timely delivery of its products. It consistently strives to manufacture products that meet its customers' expectations, especially since many of these products are sold under well-established brands owned by its customers who are themselves committed towards product quality.

Stringent quality control procedures are implemented at various stages of the Target Group's production process, from the sourcing of raw materials, manufacturing of the apparels to inspection of the finished apparels, as described below.

4.12.2 Selection of suppliers and sourcing of raw materials

The quality assurance process starts from the selection of suppliers. In this regard, the Target Group selects its suppliers based on an assessment of various factors, including a supplier's product quality, price, reliability and speed of delivery.

The principal raw materials used in the Target Group's production process is fabric. At the product origination stage, the Target Group would already be working closely with its selected suppliers on the technical development of the fabric for each product and the building of prototype samples of the fabric. The Target Group would also build prototype samples and subsequently commercial samples of the product using the fabric. The prototype fabric and the commercial sample product would be sent to laboratories for testing of certain key properties and specifications. It is only when the customer is satisfied with the commercial sample made from the prototype fabric that the Target Group will place an order for the fabric. See further Section 4.4.2 entitled "Prototype sample and commercial sample" of this Target Letter. The process described above serves as a quality assurance mechanism.

The raw materials that are delivered will be subject to further random quality checks. All fabric purchased and delivered, as the principal raw material, is subject to visual checks prior to being cut in preparation for the production process.

4.12.3 Production process quality control

During the production process, the in-line quality controller of each production line will conduct checks on the sewing process to ensure that the different components are being sewed in accordance with the requirements of the particular product. Each manufacturing facility also has a sewing leader who conducts random checks of the components being sewed at each production line.

In addition, there is an end-line quality controller at the end of each production line. The end-line quality controller will conduct a visual check of each and every single piece of the finished apparel product that is completed by the production line. See further Section 4.5.4 entitled "In-line quality control" of this Target Letter.

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As at the date hereof, the Target Group has a total of up to 108 quality assurance personnel working in the thirty-five (35) production lines spread over the Target Group's three (3) manufacturing facilities.

The quality control measures described above ensure that the production process conforms to the Target Group's production guidelines. It also allows any product defects or non-fulfilment of quality standards or customer's specifications to be discovered quickly, so that necessary steps may be taken to rectify them at appropriate stages of the production process.

4.12.4 Final quality audit

As part of the quality assurance process, the Target Group also checks the finished apparel products for broken needles prior to the products being packed. The finished apparel products are also subject to a final inspection and/or audit check by either the quality assurance team of the Target Group or the customers prior to being loaded for shipment to customers. See further Section 4.5.5 entitled "Finishing and packaging" and Section 4.5.6 entitled "Final quality audit" of this Target Letter.

4.13 Research and Development

The co-creation model requires the Target Group to be able to collaborate closely with its customers to co-create a product. In order for this co-creation model to be successfully implemented, it is critical that the Target Group is in tune with, and able to anticipate, fashion trends, market direction and customer preferences of the markets to which its products are exported.

In this regard, the Target Group has a dedicated sales and marketing team that is continuously updating itself on the latest fashion trends and developments. This is achieved through a broad mix of market research, regular visits to its customers, attending fashion trade events and seminars and continuously having conversations with and seeking feedback from its customers. See further Section 4.7 entitled "Sales and Marketing" of this Target Letter.

The Target Group also regularly updates itself on the technological developments of different types of fabrics with new properties that may be suitable for different types of apparel products. This is achieved through a mix of market research and regular discussions with its suppliers. This enables the Target Group to advise its customers on the appropriate fabrics for the customers' products based on cost efficiency and their feasibility for actual production. During the product origination process, the Target Group also works closely with its suppliers on the technical development of the fabric that is used to manufacture specific products.

The Target Group has not recorded any research and development expenses for the Periods Under Review.

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4.14 Properties and Fixed Assets

4.14.1 Properties in Malaysia

As at the Latest Practicable Date, the Target Group owns the following properties in Malaysia:

Owner	Location	Approximate Land Area/ Built-up Area (sq m)	Tenure	Use of Property	Encumbrances
KTM	No. 3A Jalan Wawasan 16, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat, Johor, Malaysia	14,630 (land area)	Leasehold of 60 years expiring on 28 August 2067	Industrial	Charged in favour of United Overseas Bank (Malaysia) Berhad
KTM	No. 3 and 3-1 Jalan Wawasan 21, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat, Johor, Malaysia	7,955 (land area)	Leasehold of 60 years expiring on 28 August 2067	Industrial	Charged in favour of Standard Chartered Bank Malaysia Berhad
KTM	Jalan Wawasan 21, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat Johor, Malaysia	8,684.6 (land area)	Leasehold of 60 years expiring on 24 January 2067	Industrial	Charged in favour of United Overseas Bank (Malaysia) Berhad
KTM	F-01, The Summit Batu Pahat, No. 88, Jalan Bakau Condong, 83000 Batu Pahat, Johor, Malaysia ⁽¹⁾	42.5 (built-up area)	Freehold	Commercial	None
KTM	20 Jalan Sri Mewah 4, Taman Sri Mewah, 86200 Simpang Renggam, Johor, Malaysia ⁽²⁾	418.1 (land area)	Freehold	Car repair workshop	Charged in favour of Malayan Banking Berhad

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Owner	Location	Approximate Land Area/ Built-up Area (sq m)	Tenure	Use of Property	Encumbrances
OAE	HS(D) 10348 PTD 1856 Mukim Linau, Daerah Batu Pahat, Johor	4,046.9 (land area)	Leasehold of 60 years expiring on 6 April 2040	Industrial	None
OAE	HS(M) 2923 PTD 24912 Mukim Linau, Daerah Batu Pahat Johor ⁽³⁾	17,498 (land area)	Freehold	Industrial	Charged in favour of Malaysian Industrial Development Finance Berhad

Notes:

- (1) KTM is not the registered proprietor of F-01, The Summit Batu Pahat, No. 88, Jalan Bakau Condong, 83000 Batu Pahat, Johor, Malaysia under Malaysian laws. Summit Parade Sdn Bhd is still the registered proprietor as it holds the master title. Summit Parade Sdn Bhd is the developer of the project known as The Summit Batu Pahat. F-01, The Summit Batu Pahat, No. 88, Jalan Bakau Condong, 83000 Batu Pahat, Johor, Malaysia was sold by Summit Parade Sdn Bhd to a first purchaser, who subsequently sold it to KTM. Summit Parade Sdn Bhd, the first purchaser and KTM executed a deed of assignment wherein all the rights of the first purchaser were assigned to KTM and therefore KTM has contractual rights against Summit Parade Sdn Bhd as the registered proprietor.
- (2) KTM is the registered proprietor of the land at 20 Jalan Sri Mewah 4, Taman Sri Mewah, 86200 Simpang Renggam, Johor, Malaysia. Pursuant to a tenancy agreement dated 1 November 2018 between KTM and Four Zee Enterprise, KTM has leased the land to Four Zee Enterprise for 2 years from 1 November 2018. The rental per month is RM2,100. Four Zee Enterprise is not related to the Enlarged Group, its controlling shareholders or directors.
- (3) A sale and purchase agreement dated 26 April 2016 ("**2016 Agreement**") was entered into between Mulia Raya Sdn Bhd, as the vendor, and OAE, as the purchaser in relation to the purchase of five (5) lots of land, being PTD 5197 to PTD 5201 HS(M) 1874 to HS(M) 1878, Mukim Linau, Batu Pahat Johor. On 13 December 2016, an application made by Mulia Raya Sdn Bhd for the amalgamation of the five (5) lots of land into one (1) lot of land ("**Amalgamated Land**") was granted by the Johor Environmental Department. The 2016 Agreement was superseded by a new sale and purchase agreement that was entered into by Mulia Raya Sdn Bhd and OAE on 28 July 2017 in relation to the purchase of HS(M) 2923 PTD 24912 Mukim Linau, Daerah Batu Pahat Johor, being the Amalgamated Land.

In relation to the land situated at Jalan Wawasan 21, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat Johor, Malaysia referred to in the above table ("**Relevant KTM Land**"), in January 2013, KTM constructed on part of the Relevant KTM Land six (6) blocks of workers' hostels ("**Existing Hostels**") which were used to house KTM's workers. The remaining part of the Relevant KTM Land is vacant.

Under the land title for the Relevant KTM Land, it is an express condition that the land is to be used for 'furniture and accessories'. The usage of the Relevant KTM Land for the housing of workers was in breach of this express condition. In addition, the Existing Hostels were also constructed without the permits required under Malaysian laws.

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In relation to the breach of the express condition that the Relevant KTM Land is to be used for 'furniture and accessories':

- (a) Under the National Land Code 1965 of Malaysia ("**NLC**"), the failure of KTM to fulfil any of the express conditions imposed on the title of the Relevant KTM Land constitutes a breach of land conditions. The breach may expose KTM to a fine of no less than RM500 and, in the case of a continuing breach, a further fine of no less than RM100 for each day that the breach is not remedied if KTM fails to show cause as to why the fine should not be imposed. In addition, for as long as there is a continuing breach, the relevant state authority may also exercise the power to forfeit the Relevant KTM Land. Further, under the NLC, where any alienated land is liable to forfeiture to the relevant state authority for breach of any condition and it appears to the relevant land administrator that the breach is capable of being remedied by the proprietor within a reasonable time, the relevant land administrator shall serve on the proprietor a notice specifying the action required for remedying the breach, and calling upon him to take such action within the time therein specified.
- (b) As at the Latest Practicable Date, KTM has not received notice of any fine having been imposed for the breach, or notice requiring remedial action to be taken or notice of forfeiture of the Relevant KTM Land. As at the Latest Practicable Date, given that the hostel was built in January 2013, the relevant land administrator could impose a fine of at least RM216,400 on KTM for breach of the express condition in the land title, which is calculated for the period from 1 January 2013 to 30 November 2018. As the NLC does not provide for a maximum fine, the Target Group is not able to quantify the potential maximum fine that KTM may face.
- (c) As at the Latest Practicable Date, KTM has relocated its workers who were being housed in the Existing Hostels to another hostel. KTM intends to demolish the Existing Hostels.
- (d) KTM has submitted an application to the relevant state authority to vary the express condition for the Relevant KTM Land to be used as a hostel. It is expected that it will take approximately one (1) year to receive the approval of the application. Accordingly, it is expected that the approval will not be received prior to Completion.
- (e) The Legal Adviser to the Company as to Malaysia Law has opined that as the relocation of the workers from the Existing Hostels is completed, KTM is no longer in breach of the express condition under the land title. Accordingly, as there is no longer a continuing breach of the express condition, the relevant state authority will no longer be entitled to exercise the power to forfeit the Relevant KTM Land. In respect of the potential fines described in subparagraph (b) above, although there is no longer a continuing breach of the express condition as the relocation of the workers from the Existing Hostels has been completed, the relevant land administrator may still impose fines on KTM in respect of its past breach, for the period from 1 January 2013 to 30 November 2018, the date on which the workers are relocated. The Target

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Group has confirmed that such potential fines will not have an adverse material impact on the financial condition or financial performance of the Target Group.

- (f) The Target Group believes that it is not necessary to obtain the approval of the application to vary the express condition under the land title prior to Completion for the following reasons:
 - (i) as disclosed above, the relocation of KTM's workers from the Existing Hostels to another hostel has been completed and KTM is no longer in breach of the express condition;
 - (ii) use of the Relevant KTM Land will resume only after the approval of the application is obtained and after the construction of the New Hostel (as defined below) is completed; and
 - (iii) the Relevant KTM Land is not material to the Target Group's business operations, as explained below.
- (g) The Company will make timely announcements on the SGXNET to update Shareholders on the status of the application to vary the express condition.

In relation to the construction of the Existing Hostels without the permits required under Malaysian laws:

- (i) A landowner is required to obtain approvals under various related legislation, namely, Town and Country Planning Act 1976 ("**TCPA**"), Street, Drainage and Building Act 1974 ("**SDBA**") and Uniform Building By-Laws 1984. In particular, the landowner is required to apply for the planning permission, building plans and road and drainage plans from the Planning Department, the Building Department and the Engineering Department of the Municipal Council of Batu Pahat. Once the building is completed, a certificate of completion and compliance will be signed by a professional architect or a professional engineer with practising certificates confirming that the building is completed and has met all statutory requirements and is ready to be occupied with all essential utilities services connected. The certificate of completion and compliance must then be submitted to the local authority. KTM did not obtain such approvals for the construction of the Existing Hostels on the Relevant KTM Land and is therefore in breach of the relevant Malaysian laws.
- (ii) KTM intends to construct a new 5-storey hostel ("**New Hostel**") on the Relevant KTM Land. Once the New Hostel is completed, KTM will relocate its workers from the external hostel into the New Hostel on the Relevant KTM Land.
- (iii) KTM applied to the Municipal Council of Batu Pahat for the necessary planning approvals for the construction of the New Hostel as well as the Existing Hostels. KTM has obtained the approval of the Municipal Council of Batu Pahat for the construction of the New Hostel (including the approvals of the Planning Department, Building Department and Engineering Department of the Municipal Council of Batu Pahat as mentioned above) subject to

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compliance with applicable conditions. KTM does not foresee any difficulties in complying with the applicable conditions. The Municipal Council of Batu Pahat has also notified KTM that the Existing Hostels do not meet certain statutory requirements and that, if KTM wishes to retain the Existing Hostels, it would have to rectify the non-compliances and, in addition, pay fees and other charges amounting to a total of up to around RM208,763.84.

- (iv) As explained above, as at the Latest Practicable Date, KTM has relocated its workers from the Existing Hostels to another hostel, and intends to demolish the Existing Hostels.
- (v) The Legal Adviser to the Company as to Malaysia Law has opined that if the Existing Hostels are demolished, KTM may still be required to pay the fees and other charges referred to in paragraph (iii) above, at the authorities' discretion. The Target Group has confirmed that such potential fees and charges will not have an adverse material impact on the financial condition or financial performance of the Target Group.
- (vi) The Legal Adviser to the Company as to Malaysia Law has opined that if the Existing Hostels are demolished, there will no longer be a continuing breach of the requirement under Malaysian laws to obtain the relevant permits for the construction of the Existing Hostels.

As the Relevant KTM Land is currently used only for hostel for its workers and is not being used for its manufacturing operations, and there is no intention to use the Relevant KTM Land for its manufacturing operations, the New Directors are of the view that the Relevant KTM Land is not critical to, and will not materially affect, the business and operations of the Target Group. As at 30 June 2018, the Relevant KTM Land has a book value of around RM1,399,748, which constitutes only approximately 3.5% of the NTA of the Target Group and is therefore not material.

KTM intends to demolish the Existing Hostels in any event instead of rectifying the non-compliances in order to retain the Existing Hostels, for the following reasons:

- (1) it is intended for the New Hostel, which will have a larger capacity and improved facilities, to replace the Existing Hostels;
- (2) as mentioned above, KTM has already obtained approval for construction of the New Hostel; and
- (3) as mentioned above, KTM has relocated its workers who were housed in the Existing Hostels to alternative accommodation, and use of the Relevant KTM Land will not resume until the approval for the application for change of land use is obtained and construction of the New Hostel is completed. Therefore, KTM does not require the use of the Existing Hostels.

The Vendor has executed in favour of the Company the Vendor Undertaking pursuant to which the Vendor has undertaken to, among other things:

- (a) procure that the Existing Hostels will be demolished by 31 January 2019; and

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- (b) indemnify and keep indemnified the Company and KTM in full against all losses (including all fines and other penalties and charges that may be imposed by the relevant authorities in Malaysia) that may be sustained, suffered or incurred by the Company and/or KTM arising from the breach of the express condition under the land title of the Relevant KTM Land and/or the construction of the Existing Hostels without obtaining the required permits under Malaysian laws.

As at the Latest Practicable Date, the Target Group leases or otherwise occupies the following property in Malaysia:

Lessor	Lessee	Location	Approximate Built-up Area (sq m)	Tenure	Use of property
Mega Label (Malaysia) Sdn Bhd	KTM	Lot 1376 GM127 Mukim Simpang Kanan, Jalan Kluang, 83000 Batu Pahat, Johor ⁽¹⁾	416.2	2 years from 1 December 2018 to 1 December 2020	Workers' hostel

Note:

- (1) KTM's workers who were housed in the Existing Hostels have been relocated to this external hostel on 1 December 2018.

4.14.2 Properties in Cambodia

As at the Latest Practicable Date, the Target Group leases or otherwise occupies the following properties in Cambodia:

Lessor	Lessee	Location	Approximate Built-up Area (sq m)	Tenure	Use of property
Kim Thav, Kiang Chhay, Lim Kok, and Kim Heng	Callisto Cambodia	Srer Reachah Village, Sangkat Samraong Kraom, Khan Por Senchey, Phnom Penh, Cambodia	11,250	From 2 July 2018 to 31 December 2024	Office and factory
Kim Thav, Kaing Chhay and Lim Kok	Moon Cambodia	Phum Chung Ruk, Sangkat Trapeang Krasang, Khan Dang Kao, Phnom Penh, Cambodia	3,000	From 2 July 2018 to 31 December 2024	Office and factory

As at the Latest Practicable Date, the New Directors were not aware of any breach of any obligations under the above lease agreements that would result in their termination by the lessor or non-renewal, if required, when they expire.

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Under the terms of each of the above leases, the lessors are not entitled to unilaterally terminate the lease of the above properties by the Target Group prior to the term, unless there is any breach or default caused by the Target Group.

4.14.3 Material fixed assets



As at the end of FY2017 and 1H2018, (a) the land and buildings in Malaysia owned by the Target Group as listed in Section 4.14.1 above had a carrying amount of approximately RM27.7 million and RM31.2 million respectively; and (b) the remaining plant and machinery, factory fitting, electrical installation, office equipment, furniture and fittings, renovation, computer and motor vehicles had an aggregate carrying amount of approximately RM17.3 million and RM19.2 million respectively.

As at the Latest Practicable Date, none of the Target Group's properties and material fixed assets is subject to any mortgage, pledge or any other encumbrances or otherwise used as security for any bank borrowings except for: (i) the encumbrances over the land and properties in Malaysia owned by the Target Group as disclosed in the table in Section 4.14.1 above; (ii) debentures over KTM's machinery and other equipment created in favour of United Overseas Bank (Malaysia) Berhad; and (iii) certain motor vehicles owned by the Target Group that are subject to hire purchase financing.

To the best of the New Directors' knowledge and belief, save as disclosed in Section 4.14.1 above in relation to the Relevant KTM Land, there is no regulatory requirement or environmental issue that may materially affect the Target Group's utilisation of any of the above properties or material tangible fixed assets.

4.15 Intellectual Property

As at the Latest Practicable Date, the Target Group has registered the following trademark:




Trademark	Registered Proprietor	Country	Class	Registration Date	Expiry Date
	Target	Singapore	40 ⁽¹⁾	20 March 2018	20 March 2028
					

Note:

- (1) Class 40 includes sewing services, custom tailoring, dressmaking, embroidering, clothing alteration, preparation and treatment of fabric, dyeing services, textile dyeing, cloth dyeing, textile treating, cloth treating, crease-resistant treatment for clothing, fabric bleaching, applying finishes to textiles, cloth edging, cloth cutting, cloth waterproofing, fabric waterproofing, cloth fireproofing, fabric fireproofing, cloth pre-shrinking and custom assembling of materials for others.

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As at the Latest Practicable Date, the Target Group has applied for registration of the following trademarks:

Trademark	Registered Proprietor	Country	Class	Application Date	Status
	Target	Malaysia	40 ⁽¹⁾	20 March 2018	Pending Registration
					
	Target	Cambodia	40 ⁽¹⁾	4 April 2018	Pending Registration

Note:

- (1) Class 40 includes sewing services, custom tailoring, dressmaking, embroidering, clothing alteration, preparation and treatment of fabric, dyeing services, textile dyeing, cloth dyeing, textile treating, cloth treating, crease-resistant treatment for clothing, fabric bleaching, applying finishes to textiles, cloth edging, cloth cutting, cloth waterproofing, fabric waterproofing, cloth fireproofing, fabric fireproofing, cloth pre-shrinking and custom assembling of materials for others.

Barring any unforeseen circumstances and to the best of the New Directors' knowledge and belief, there is no impediment which may affect the registration of the above trademarks that are pending registration.

The business or profitability of the Target Group is not materially dependent on any patent, licence or new manufacturing process.

4.16 Licences, Permits and Government Regulations

4.16.1 Government Regulations

The Target Group's principal business and operations are located in Malaysia and Cambodia, and the Target Group is subject to the relevant laws and regulations in Malaysia and Cambodia. The relevant laws and regulations applicable to the Target Group's business and operations in Malaysia and Cambodia are set out in **Appendix I** entitled "Summary of Applicable Laws and Regulations in Malaysia" and **Appendix J** entitled "Summary of Applicable Laws and Regulations in Cambodia" respectively of the Circular.

The Target Group has failed to comply with certain requirements under Malaysian and Cambodian laws and regulations in the conduct of their business and operations in Malaysia and Cambodia respectively.

In relation to Malaysia, please see Section 4.14.1 entitled "Properties in Malaysia" of this Target Letter on non-compliance by KTM with an express condition on land use in relation to the use of the Relevant KTM Land and in constructing the Existing Hostel on the Relevant KTM Land without obtaining the required permits

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under Malaysian laws, as well as the potential penalties and the indemnity provided by the Vendor in respect thereof.

In addition, intercompany sales from KTM to Xentika for the purpose of Xentika selling to US customers is required to be in compliance with applicable Malaysian transfer pricing laws and regulations. In connection therewith, the Vendor has executed the Vendor Undertaking in favour of the Company pursuant to which the Vendor has undertaken to, among other things, indemnify the Company and KTM in full against all losses (including taxes, additional taxes, penalties and/or interests) that may be suffered, sustained or incurred by the Company and/or KTM if such intercompany sales are held not to be in compliance with applicable Malaysian transfer pricing laws and regulations. The New Directors confirm that KTM has not been the subject of any current or past audits in relation to transfer pricing and are not aware of any matters or events which will result in KTM's non-compliance with Malaysian laws and regulations relating to transfer pricing.

In relation to Cambodia, Callisto Cambodia and Moon Cambodia have not complied with certain requirements under Cambodian laws and regulations in the conduct of their business and operations in Cambodia, including certain requirements relating to apprentices, metrological equipment, auditing of its financial statements and the provision of uniforms, as explained below. The Target Group believes that the total potential penalties, if any, which may be imposed for such non-compliances will not exceed US\$20,000 and the non-compliances have largely been rectified vis-à-vis the relevant regulatory or enforcement authorities.

Non-compliances in relation to apprentices

Under Cambodian laws, any enterprise employing more than sixty (60) workers must employ a certain number of apprentices every year. At the end of the apprenticeship training, a certificate of apprenticeship is awarded to the enterprise by the Ministry of Labor and Vocational Training (“MLVT”) to certify that the enterprise has complied with this requirement. In addition, the enterprise is required to enter into apprenticeship contracts with its apprentices. Callisto Cambodia and Moon Cambodia are subject to such requirements as both companies employ more than sixty (60) workers each.

Callisto Cambodia and Moon Cambodia previously did not have the certificates of apprenticeship for 2018 and did not enter into any contracts with their apprentices. As at the Latest Practicable Date, Callisto Cambodia and Moon Cambodia have obtained the certificates of apprenticeship for 2018 and entered into the requisite contracts with their apprentices, and these non-compliances have therefore been rectified.

Callisto Cambodia did not have the certificates of apprenticeship for 2014, 2015 and 2017, and Moon Cambodia did not have the certificates of apprenticeship for the period from 2012 to 2017. In 2018, Callisto Cambodia and Moon Cambodia applied for the certificates for the relevant past years and made payment for the applications and have received payment receipts for the applications. Bun & Associates, the Legal Adviser to the Company as to Cambodian Law, has advised that in practice, the MLVT will typically not issue certificates of apprenticeship in respect of past years but will issue only payment receipts. Further, Bun & Associates has opined that: (a) the issue of payment receipts to Callisto Cambodia

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and Moon Cambodia is considered to be valid evidence that they have complied with the relevant requirements under Cambodian laws for the relevant years; (b) Callisto Cambodia and Moon Cambodia have therefore rectified the past non-compliances; and (c) there is no material adverse impact on Callisto Cambodia or Moon Cambodia arising from the certificates of apprenticeship not having been issued for the past years.

Bun & Associates is of the view that the past non-compliances in failing to enter into apprenticeship contracts with its apprentices and failing to obtain the certificates of apprenticeship for its apprentices are not material, it is not aware of the authorities having imposed any penalties for such past non-compliances, and it is highly unlikely that Callisto Cambodia and Moon Cambodia will be imposed with any penalty for such past non-compliances.

Non-compliances in relation to metrological equipment

Under Cambodian laws, Callisto Cambodia and Moon Cambodia were previously required to obtain certain licenses and certificates for their metrological equipment, but did not obtain some of these licences and certificates. The Target Group is of the view that the metrological equipment is not essential to their business operations and has, on 4 December 2018, disposed of the equipment. Bun & Associates has opined that Callisto Cambodia and Moon Cambodia are therefore no longer required to obtain these licences and certificates.

Bun & Associates is of the view that the past non-compliances in failing to obtain certain licences and certificates for Callisto Cambodia's and Moon Cambodia's metrological equipment are not material, it is not aware of the authorities having imposed any penalties for such past non-compliances, and it is highly unlikely that Callisto Cambodia and Moon Cambodia will be imposed with any penalty for such past non-compliances.

Non-compliances in relation to auditing of financial statements

Under Cambodian laws, Callisto Cambodia and Moon Cambodia are required to have their financial statements audited by independent external auditor registered with the Kampuchea Institute of Certified Public Accountants and Auditors. Callisto Cambodia and Moon Cambodia are not in compliance with this requirement. The Target Group has undertaken to appoint a duly registered independent external auditor to audit Callisto Cambodia and Moon Cambodia's financial statements for FY2018.

Non-compliance in relation to uniforms

Under Cambodian laws, Callisto Cambodia and Moon Cambodia are required to provide two (2) sets of uniforms to their employees on an annual basis. The Target Group is of the view that the provision of uniforms to employees on an annual basis is not practicable due to it being common in the industry, and also for Callisto Cambodia and Moon Cambodia, for employees to stay only for a short period of time and to be replaced by employees who may similarly not stay for long.

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Neither Callisto Cambodia nor Moon Cambodia has received notice of any penalties being imposed for any of the above non-compliances. Bun & Associates, the Legal Adviser to the Company as to Cambodian Law, has opined that these non-compliances are not material, it is not aware of any penalties having been imposed for similar non-compliances in practice, and it is unlikely that any penalties would be imposed on Callisto Cambodia or Moon Cambodia for such non-compliances.

Pursuant to the Vendor Undertaking, the Vendor has also undertaken to indemnify the Company and each of Callisto Cambodia and Moon Cambodia in full against all losses that may be suffered, sustained or incurred by the Company, Callisto Cambodia and/or Moon Cambodia arising from all such non-compliances.

In order to prevent a recurrence of similar non-compliances and ensure the Enlarged Group's compliance with the relevant laws and regulations in the future, including the New Fabric Dyeing Facility's compliance with the applicable environmental, anti-pollution and related laws and regulations in Malaysia as mentioned in the risk factor "The New Fabric Dyeing Facility is subject to environmental laws in Malaysia" under Section 16.2 and Appendix I entitled "Summary of Applicable Laws and Regulations in Malaysia" of the Circular, the Target Group has undertaken to adopt and implement the following processes:

- (a) Mr Chew Chong Kiat, one of the New Executive Officers, will be directly responsible for handling the compliance function of the Enlarged Group, assisted by the Target Group's human resource and admin manager and an in-house compliance team which will be set up to ensure the Enlarged Group's compliance with relevant laws and regulations in Malaysia, Cambodia and any other jurisdictions which the Enlarged Group may be subject to;
- (b) all non-compliance issues must be reported to the New Audit Committee and the New Board; and
- (c) the New Audit Committee will monitor and exercise oversight of the compliance function.

4.16.2 Licences, permits and approvals for the business and operations of the Target Group

The following is a description of the material licences and permits required and obtained for the business and operations of the Target Group in the countries it currently operates in (apart from those generally applicable to companies and business in such countries):

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Malaysia

Holder	Name of licence or permit	Description	Issuing Body	Validity Period
KTM	Business Licence	Licence to carry out business as a garment manufacturing factory at No. 3A Jalan Wawasan 16, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat, Johor, Malaysia	Batu Pahat Municipal Council	9 January 2018 to 31 December 2018 ⁽¹⁾
KTM	Manufacturing licence	Licence to act as a Licensed manufacturer of made-up garments at No. 3A Jalan Wawasan 16, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat, Johor, Malaysia	Ministry of International Trade and Industry of Malaysia	Effective from 22 June 2006 and no expiry date ⁽²⁾
KTM	Fire certificate under the Fire Services Act 1988 of Malaysia	Certificate certifying that the premises at No. 3A Jalan Wawasan 16, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat Johor, Malaysia have complied with the life safety, fire prevention, fire protection and firefighting requirements under the Fire Services Act 1988	Fire and Rescue Department Malaysia	18 August 2018 to 11 August 2019 ⁽³⁾

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Holder	Name of licence or permit	Description	Issuing Body	Validity Period
KTM	Licence under section 65A of the Customs Act as a licensed manufacturing warehouse	Licence to carry on any manufacturing process and other operation in respect of the goods liable to customs duties in the warehouse of No. 3A Jalan Wawasan 16, Kawasan Perindustrian Sri Gading, 83300 Batu Pahat, Johor, Malaysia	Royal Malaysian Customs Department	1 July 2017 to 30 June 2019 ⁽³⁾
KTM	Certificate of fitness for unfired pressure vessel	Certificate confirming that the unfired pressure vessels used by KTM are fit for use	Government of Malaysia	23 September 2018 to 18 October 2019 ⁽³⁾
KTM	Certificates of fitness for boiler	Certificates confirming that the boilers used by KTM are fit for use	Government of Malaysia	<p>5 certificates are valid from 17 January 2018 to 15 April 2019⁽³⁾</p> <p>5 certificates are valid from 23 September 2018 to 18 October 2019⁽³⁾</p> <p>4 certificates are valid from 23 September 2018 to 15 November 2019⁽³⁾</p> <p>7 certificates are valid from 14 December 2018 to 17 February 2020</p>
OAE	Business licence	Licence to carry out business of weaving, dyeing, printing and finishing of textile, wholesale of yarn and fabric at No. 3 Jalan Wawasan 21, Kawasan Perindustrian Sri Gading 83300	Batu Pahat Municipal Council	10 January 2018 to 31 December 2018 ⁽¹⁾

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Holder	Name of licence or permit	Description	Issuing Body	Validity Period
OAE	Approval for registration under Section 13 of the Sales Tax Act 2018	Approval for OAE to be registered as a taxable person under the Sales Tax Act 2018	Royal Malaysian Customs Department	Effective from 1 September 2018 and no expiry date

Notes:

- (1) This licence cannot be renewed before its expiry date and can only be renewed on 1 January 2019. The New Directors do not foresee any difficulties in renewing this licence.
- (2) This licence was issued following a change in KTM's factory address. The Ministry of International Trade and Industry of Malaysia has confirmed that the manufacturing licence of KTM has been approved since October 1990 and KTM has been in compliance with all the conditions imposed by the Ministry of International Trade and the Malaysian Investment Department Authority.
- (3) The Target Group will typically submit the renewal application approximately 30 to 50 days before the expiry date. The New Directors do not foresee any difficulties in obtaining the renewed certificates.

Cambodia

Holder	Name of licence or permit	Description	Issuing Body	Validity Period
Callisto Cambodia	Factory establishment permit	Permit to establish a factory at Srae Rachcheak Village, Sangkat Samraong Kraom, Khan Por Senchey, Phnom Penh, Cambodia	Ministry of Industry and Handicraft (formerly known as Ministry of Industry, Mines and Energy)	Lifespan of the factory
Callisto Cambodia	Factory operation licence	Approval to operate a factory at Srae Rachcheak Village, Sangkat Samraong Kraom, Khan Por Senchey, Phnom Penh, Cambodia	Ministry of Industry and Handicraft (formerly known as Ministry of Industry, Mines and Energy)	13 November 2017 to 13 November 2020
Callisto Cambodia	Certificate on quality, effectiveness of fire prevention and firefighting system	Certificate certifying that Callisto Cambodia's fire prevention and firefighting system is effective and of good quality	Phnom Penh Municipal Police Commissioner	3-year validity (from the issue date of 23 February 2018)

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Holder	Name of licence or permit	Description	Issuing Body	Validity Period
Callisto Cambodia	Certificate of training on fire prevention and firefighting system	Certificate certifying that Callisto Cambodia has conducted the required training on fire prevention and firefighting system as required under applicable laws	Phnom Penh Municipal Police Commissioner	6-month validity (from the issue date of 10 September 2018) ⁽¹⁾
Callisto Cambodia	Environmental Protection Contract and Environmental Management Plan	Approval to operate the factory in compliance with environmental regulations	Ministry of Environment	Effective from 22 August 2013 and valid for the lifespan of the factory
Callisto Cambodia	Construction Permit	Approval of the construction plan of the building	Ministry of Land Management, Urban Planning and Construction	N/A
Callisto Cambodia	Construction Closing Permit	Indication that the building was constructed in accordance with the approved construction plan	Ministry of Land Management, Urban Planning and Construction	N/A
Moon Cambodia	Factory Establishment Permit	Permit to establish a factory at Phum Chung Ruk, Sangkat Trapeang Krasang, Khan Dang Kao, Phnom Penh, Cambodia	Ministry of Industry and Handicraft (formerly known as Ministry of Industry, Mines and Energy)	Effective from 17 August 2011 and valid for the lifespan of the factory
Moon Cambodia	Factory Establishment Permit	Permit to establish a factory at Phum Chung Ruk, Sangkat Trapeang Krasang, Khan Dang Kao, Phnom Penh, Cambodia	Ministry of Industry and Handicraft (formerly known as Ministry of Industry, Mines and Energy)	Effective from 27 November 2017 and valid for the lifespan of the factory

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Holder	Name of licence or permit	Description	Issuing Body	Validity Period
Moon Cambodia	Factory Operation Certificate	Certificate to operate a factory at Phum Chung Ruk, Sangkat Trapeang Krasang, Khan Dang Kao, Phnom Penh, Cambodia	Ministry of Industry and Handicraft (formerly known as Ministry of Industry, Mines and Energy)	28 November 2017 to 28 November 2020
Moon Cambodia	Certificate on quality, effectiveness of fire prevention and firefighting system	Certificate certifying that Moon Cambodia's fire prevention and firefighting system is effective and of good quality	Phnom Penh Municipal Police Commissioner	3-year validity (from the issue date of 26 September 2017)
Moon Cambodia	Certificate of training on fire prevention and firefighting system	Certificate certifying that Moon Cambodia has conducted the required training on fire prevention and firefighting system as required under applicable laws	Phnom Penh Municipal Police Commissioner	6-month validity (from the issue date of 19 November 2018) ⁽¹⁾

Note:

(1) The Target Group will typically apply for renewal approximately 30 to 50 days before the expiry date. The New Directors do not foresee any difficulties in obtaining the renewed certificates.

Save as disclosed above, the Target Group does not require any other material governmental licences or permits in respect of its current operations apart from those generally applicable to companies and business in such countries.

To the best of the New Directors' knowledge, as at the Latest Practicable Date, the Target Group has obtained all requisite licences and permits and is in compliance with all relevant laws and regulations in Malaysia and Cambodia that would materially affect its business operations.

4.16.3 Licences and permits for the construction of the New Fabric Dyeing Facility

Apart from licences and permits required for the business and operations of the Target Group, the Target Group is also required to obtain the necessary licences and permits for the construction of the New Fabric Dyeing Facility in Malaysia.

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The following is a description of the material licences and permits required and obtained for the construction of the New Fabric Dyeing Facility:

Holder	Name of licence or permit	Description	Issuing Body	Validity Period
OAE	Building plan application	Application for building plan for the purpose of constructing the New Fabric Dyeing Facility on PTD 5197 – PTD 5201, HS(M) 1874 – HS(M) 1878 (Lot 7799 – Lot 7803) Jalan Perahu, Kawasan Perindustrian Tongkang Pecah, Mukim Linau, Batu Pahat Johor	Municipal Council of Batu Pahat	Effective from 9 March 2017 with one year validity period to commence construction work; once the construction work has commenced, there is no expiry date
OAE	Building plan application	Application for building plan for the purpose of constructing the New Fabric Dyeing Facility on PTD 5197 – PTD 5201, HS(M) 1874 – HS(M) 1878 (Lot 7799 – Lot 7803) Jalan Perahu, Kawasan Perindustrian Tongkang Pecah, Mukim Linau, Batu Pahat Johor	Fire and Rescue department, Johor, Malaysia	Effective from 12 March 2017 with one year validity period to commence the construction work; once the construction work has commenced, there is no expiry date

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Holder	Name of licence or permit	Description	Issuing Body	Validity Period
OAE	Construction planning application	Application for planning construction under s.21 Town and County Planning Act 1976 for the purpose of constructing the New Fabric Dyeing Facility on PTD 5197 – PTD 5201, HS(M) 1874 – HS(M) 1878 (Lot 7799 – Lot 7803) Jalan Perahu, Kawasan Perindustrian Tongkang Pecah, Mukim Linau, Batu Pahat Johor	Municipal Council of Batu Pahat	Effective from 23 July 2017 with one year validity period to commence construction work; once the construction work has commenced, there is no expiry date
OAE	Landscape plan application	Application for landscape plan for the purpose of constructing the New Fabric Dyeing Facility on PTD 5197 – PTD 5201, HS(M) 1874 – HS(M) 1878 (Lot 7799 – Lot 7803) Jalan Perahu, Kawasan Perindustrian Tongkang Pecah, Mukim Linau, Batu Pahat Johor	Municipal Council of Batu Pahat	Effective from 23 July 2017 with one year validity period to commence construction work; once the construction work has commenced, there is no expiry date

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Holder	Name of licence or permit	Description	Issuing Body	Validity Period
OAE	Construction planning approval application	Application for approval in relation to the planning construction under s.21 Town and County Planning Act 1976 for the purpose of constructing the New Fabric Dyeing Facility on PTD 5197 – PTD 5201, HS(M) 1874 – HS(M) 1878 (Lot 7799 – Lot 7803) Jalan Perahu, Kawasan Perindustrian Tongkang Pecah, Mukim Linau, Batu Pahat Johor	Department of Environment, Johor	Effective from 12 June 2017 with one year validity period to commence construction work; once the construction work has commenced, there is no expiry date

Save as disclosed above, the Target Group does not require any other material governmental licences or permits in respect of the construction of the New Fabric Dyeing Facility.

To the best of the New Directors' knowledge, as at the Latest Practicable Date, the Target Group has obtained all requisite licences or permits and is in compliance with all relevant laws and regulations in Malaysia that would materially affect the construction of the New Fabric Dyeing Facility.

4.17 Insurance

The Target Group has taken out the necessary insurance policies for its business and operations, to cover various risks including, but not limited to, product liability, trade credit extended to customers, damage to and/or loss of goods in transit, loss and/or damage due to fire, theft and burglary, consequential loss, motor vehicle and personal accident.

The New Directors are of the view that the above insurance policies are adequate for the Target Group's present operations. However, any significant damage to the Target Group's operations may have a material adverse effect on its business, results of operations or financial position. As at the Latest Practicable Date, the Target Group has not suffered any material loss or damage or incurred any material liabilities due to the lack of or inadequate insurance coverage in respect of such claims. See further Section 16 entitled "Risk Factors" of the Circular.

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4.18 Employees

The functional distribution breakdown of the full-time employees of the Target Group as at the end of each of FY2015, FY2016, FY2017 and 1H2018 and up to the Latest Practicable Date is as follows:

Category of Employees	As at 31 December 2015	As at 31 December 2016	As at 31 December 2017	As at 30 June 2018	As at the Latest Practicable Date
Sales and Marketing	2	2	4	5	3
Sourcing and Purchasing	5	6	4	6	6
Product Development	20	20	21	21	19
Merchandising	21	25	28	31	36
Production	1,659	1,462	1,533	1,774	1,786
Human Resources and Administration	31	30	27	33	36
Accounts and Finance	11	13	16	16	18
Shipping	4	4	4	6	7
Industrial Engineering	1	1	1	2	1
Compliance	1	1	1	–	1
Information Technology	1	1	1	1	1
Total	1,756	1,565	1,640	1,895	1,914

The number of production employees decreased from 1,659 as at 31 December 2015 to 1,462 as at 31 December 2016 due primarily to the general shortage of foreign workers in Malaysia in 2016 which also affected KTM's manufacturing operations in Malaysia, and an outflow of workers in the Target Group's Cambodian Manufacturing Facilities who were seeking employment opportunities with new factories in the same vicinity as the Target Group's Cambodian Manufacturing Facilities during the same year. The production team's staff strength thereafter increased to 1,774 employees as at the end of 1H2018 and 1,786 as at the Latest Practicable Date due to an increase in workers in the Cambodian Manufacturing Facilities to meet the increasing production needs in the Cambodian Manufacturing Facilities.

The geographical distribution of the Target Group's full-time employees as at the end of each of FY2015, FY2016, FY2017 and 1H2018 and up to the Latest Practicable Date is as follows:

Country of Employees	As at 31 December 2015	As at 31 December 2016	As at 31 December 2017	As at 30 June 2018	As at the Latest Practicable Date
Malaysia	489	447	425	520	502
Cambodia	1,267	1,118	1,215	1,375	1,412
Total	1,756	1,565	1,640	1,895	1,914

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The number of employees in Malaysia had fallen over the recent three (3) financial years from 489 as at 31 December 2015 to 425 as at 31 December 2017 due primarily to the general shortage of foreign workers in Malaysia, which also affected KTM's manufacturing operations in Malaysia. However, due to the increase in the foreign workers quota and the greater availability of foreign workers in Malaysia, the number of employees in Malaysia has increased to 520 as at 30 June 2018 and subsequently decreased to 502 as at the Latest Practicable Date. Due to the increase in sales orders at the Cambodian Manufacturing Facilities, the number of employees in Cambodia has increased over the recent three (3) financial years from 1,267 as at 31 December 2015 to 1,375 and 1,412 as at 30 June 2018 and the Latest Practicable Date respectively.

The Target does not employ any temporary staff.

In Malaysia, the Target Group's employees are not unionised. In Cambodia, as at the Latest Practicable Date, some of the employees of Callisto Cambodia and Moon Cambodia are represented by separate workers' unions which are duly registered with the Ministry of Labour and Vocational Training of Cambodia to represent these employees.

In January 2012, Moon Cambodia encountered a protest by its employees after terminating the employment of five workers who were union representatives. These workers alleged that they were unfairly dismissed, and thereafter organised a strike supported by an external union to garner the support of the employees of Moon Cambodia. On 1 February 2012, these workers led some of the employees in a protest against Moon Cambodia by making certain demands relating to, among other things, the reinstatement of these five union representatives, increase in salary and bonuses and improvement in employee benefits.

The allegations made by these workers that they were unfairly dismissed were however not true, given that they were employed under 3-month fixed duration employment contracts and hence were not entitled to have their employment contracts automatically renewed upon expiry of the 3-month contractual period. Moon Cambodia subsequently paid compensation to the workers having fixed duration employment contracts in accordance with Cambodian laws. As at the Latest Practicable Date, the said workers are barred by the statute of limitation under Cambodian laws from making any claims against Moon Cambodia in relation to their rights to any payment of compensation.

On 3 February 2012, an arbitral order was issued by the Arbitration Council of Cambodia for the employees of Moon Cambodia to discontinue the strike and return to work the next day. On 8 February 2012, with a view to settle the matter privately and expeditiously, Moon Cambodia negotiated with the employees in relation to the employees' claims and eventually acceded to some of the claims. The strike in 2012 had resulted in the suspension of work for around eight (8) days in Moon Cambodia.

In early 2014, Callisto Cambodia and Moon Cambodia were involved in separate labour disputes in relation to certain claims made by their respective employees for, among other things, certain payments such as increased transportation and accommodation allowance and lunch allowance. The employees of Callisto Cambodia and Moon Cambodia went on strike led by an external union to press their claims and this resulted in the suspension of work for twenty-four (24) days at the Callisto Cambodia manufacturing facility and thirteen (13) days at the Moon Cambodia manufacturing facility. Most of the employees' claims were eventually resolved by private settlement between Callisto Cambodia and Moon Cambodia and their respective employees. Several claims against Callisto Cambodia and Moon Cambodia that were not resolved by private settlement were referred to the Arbitration Council of Cambodia. In March 2014, arbitral orders were issued for the employees of Callisto Cambodia and Moon Cambodia to discontinue the strike. However, the employees

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disobeyed the arbitral orders and continued the strike. Notwithstanding the foregoing, the Arbitration Council of Cambodia closed the case without making any ruling.

Save for suspension of work during the period of the strikes described above, neither Callisto Cambodia nor Moon Cambodia suffered any other material loss arising from the above labour disputes in 2012 and 2014.

Save as disclosed above, there has not been any incidence of work stoppages or labour disputes that affected the Target Group's business. Accordingly, the Target Group considers its relationship with the workers' unions and its employees to be good and is expected to continue to be so in the future.

4.19 Staff Training

The Target Group believes in providing its staff with the necessary training and professional development, so that they are adequately equipped with the relevant skills and expertise to carry out their jobs. Training of employees will vary in accordance with the requirements of the employees' roles and departments. All new employees are required to undergo orientation training and, where applicable, hands-on attachment programmes to ensure that they are familiar with the Target Group's operational processes, production guidelines, quality control requirements and work safety procedures. Employees who are working along the production process, are further imparted with the relevant product knowledge and technical skills relating to the various raw materials and production methods utilised by the Target Group. The Target Group also compiles employee handbooks and displays them at its manufacturing facilities so that employees are aware of the company's regulations and procedures which they have to follow.

Continuing training programmes are conducted in-house for employees in accordance with their job scope, with the aim of improving their overall efficiency, competency, technical knowledge and skills. Employees may also be enrolled in seminars and courses organised by external parties such as the Malaysian Knitting Manufacturers Association and the Malaysian Textile Manufacturers Association which are associations for the textile and apparel industry.

The Target Group's staff training expenditure during the Periods Under Review was not material as most of its staff training is conducted in-house by the relevant production supervisor or management staff.

4.20 Environment and Safety

The Target Group's operations and properties are subject to environmental laws and regulations in Malaysia and Cambodia. See further **Appendix I** entitled "Summary of Applicable Laws and Regulations in Malaysia" and **Appendix J** entitled "Summary of Applicable Laws and Regulations in Cambodia" of this Circular.

In Malaysia, the Target Group's existing operations are not required to comply with any material environmental laws and regulations.

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In Cambodia, the Target Group's operations are required to comply with applicable environmental laws and regulations, including in relation to the discharge of liquid waste and industrial solid waste, emission of air pollutants, and noise generated at the Manufacturing Facilities in Cambodia. In this regard, each of Callisto Cambodia and Moon Cambodia has obtained all material environmental licences and permits required for its operations.

The Target Group also compiles and displays its health and safety policies at its manufacturing facilities so that employees are aware of the measures and procedures to comply with to maintain a healthy and safe working environment. As testament of the Target Group's commitment towards its employees' welfare and ensuring a safe, lawful, humane and ethical working environment, the KTM and Callisto Cambodia manufacturing facilities have been awarded the Worldwide Responsible Accredited Production ("WRAP")⁽¹⁾ Gold certification in 2017 and 2018 respectively. The KTM and Callisto Cambodia manufacturing facilities have further been certified in 2017 by one of its customers, VF Corporation, in respect of their compliance on health and safety. VF Corporation is one of the world's largest apparel, footwear and accessories companies with a diverse portfolio of reputable brands. It places a strong emphasis on socially and environmentally responsible operations in its business dealings globally, and conducts factory compliance audit on its suppliers from time to time.

Note:

- (1) Based on its website at www.wrapcompliance.org, WRAP is an independent, objective, non-profit team of global social compliance experts dedicated to promoting safe, lawful, humane, and ethical manufacturing around the world through certification and education. Its primary activity is its certification program, which is mainly focused on the apparel, footwear and sewn products sectors.

The New Directors believe that the Target Group's apparel manufacturing facilities in Malaysia and Cambodia have complied in all material respects with the relevant Malaysian and Cambodian environmental protection laws and regulations and have obtained the requisite licences and permits from the relevant governmental authorities.

4.21 Seasonality

Demand for the Target Group's apparels depends on seasonal and cyclical demand conditions. Sales are generally higher during the months leading up to year-end holiday and festive seasons in the EU, US and Canada markets, particularly Thanksgiving Day, Christmas Day and New Year, as the Target Group's customers increase their orders in anticipation of higher sales during such festive periods. Such orders are typically processed and delivered to customers in the months of May to September. Demand tends to fall during the festive periods as the business activities of the Target Group's customers are generally reduced.

4.22 Awards and Certifications

In the Target Group's recent operating history, it has managed to obtain various awards and certifications in recognition of its quality of products and services, business operations, internal controls and commitment to product sustainability. The following are some of the major awards and certifications which the Target Group has received:

Year	Awards and Certifications	Issuing Body
2012	Vendor of the Year	Blair Corporation
2013	Vendor of the Year	Blair Corporation

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Year	Awards and Certifications	Issuing Body
2014	Vendor of the Year	Blair Corporation
2014	Best on Time Delivery Award	Orchard Brands Corporation
2015	Vendor of the Year	Haband
2017-2018	WRAP GOLD certification in respect of KTM's manufacturing facilities	WRAP
2018-2019	WRAP GOLD certification in respect of Callisto Cambodia's manufacturing facilities	WRAP

Blair Corporation and Orchard Brands Corporation are part of the Bluestem Brands, Inc. group, and Haband is one of the brands under Bluestem Brands, Inc. Bluestem Brands, Inc. is one of the major customers of the Target Group. See further Section 4.8 entitled "Major Customers" of this Target Letter.

The Target Group has also been certified by the Customs-Trade Partnership Against Terrorism ("CTPAT") in 2017 in relation to the security of KTM's and Callisto Cambodia's supply chain with respect to terrorism. The CTPAT is a programme under which the US Border and Customs Protection works with the trade community, including the Target Group's customers in US, to strengthen international supply chains and improve US border security. CTPAT certified members are considered to be of low risk, and are therefore their products are less likely to be examined at a US port of entry.

4.23 Dividend Policy

4.23.1 Target Group

As at the Latest Practicable Date, the Target Group does not have a dividend policy. Save as disclosed below, none of the companies in the Target Group has paid or declared any dividends in FY2015, FY2016, FY2017 and during the period beginning from 1 January 2018 to the Latest Practicable Date:

4.23.2 KTM

RM'000	FY2015	FY2016	FY2017	1 January 2018 to the Latest Practicable Date
Dividends declared	2,800	3,500	6,000	—

As of 30 June 2018, an aggregate amount of RM8,701,000 is owing from KTM to its current shareholders, Mr Lim Siau Hing and Mr Lim Vhe Kai, arising from dividend declared in respect of past financial years but not yet paid by KTM and advances made by them to KTM for working capital purposes.

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Mr Lim Siau Hing, Mr Lim Vhe Kai, KTM and the Company have entered into an agreement dated 17 December 2018, pursuant to which:

- (a) KTM shall be entitled to pay an amount of RM2,135,000 to Mr Lim Siau Hing and Mr Lim Vhe Kai by 31 December 2018;
- (b) KTM shall be entitled to pay an amount of RM3,000,000 to Mr Lim Siau Hing and Mr Lim Vhe Kai by 31 March 2019;
- (c) the balance of RM3,566,000 (“**Amount Payable**”) shall be paid to Mr Lim Siau Hing and Mr Lim Vhe Kai, in full or in part from time to time, at such time or times, as may be agreed by KTM and the Company, and subject always to the New Audit Committee being satisfied that such payment(s) will not adversely affect the ongoing working capital or liquidity requirements and the financial position of the Company and its subsidiaries.

4.23.2 Enlarged Group

The declaration and payment of dividends by the Company following Completion will be determined at the sole discretion of the New Board, subject to the approval of Shareholders.

In making their dividend recommendation, the New Board will take into consideration the performance of the Enlarged Group, including the operating results, financial condition, working capital requirements, capital expenditure needs, the terms of borrowing arrangements (if any), the level of cash and retained earnings, and other factors deemed relevant by the New Board. In addition, in determining the amount of dividends to be paid, consideration will be given to maximising Shareholders’ value. In the circumstances, there is no assurance that dividends will be paid in the future or as to the amount or timing of any dividends that will be paid.

In addition, the ability of the Company as an investment holding company to declare and pay dividends is dependent on the declaration and payment of dividends by the Target Group Companies and, in particular, KTM. KTM is subject to bank covenants which restrict the ability of KTM to declare and pay dividends to the Company without the consent of the relevant banks. See further the risk factor “The Company may not be able to pay dividends in future” under Section 16.4 entitled “Risk factors relating to ownership of the Shares following Completion” of this Circular.

The Company may, by ordinary resolution, declare dividends at a general meeting, but it may not pay dividends in excess of the amount recommended by the New Board. The New Board may declare interim dividends without seeking Shareholders’ approval. The Company must pay all dividends out of its profits pursuant to the Companies Act.

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All dividends are paid *pro-rata* among the Shareholders in proportion to the amount paid up on each Shareholder's Shares, unless the rights attaching to an issue of any Share provides otherwise. Any payment by the Company to the CDP of any dividend payable to a Shareholder whose name is registered in the depository register shall, to the extent of payment made to the CDP, discharge the Company from its obligation to that Shareholder in respect of that dividend payable.

For information relating to taxes payable on dividends, please refer to **Appendix K** entitled "Taxation" of the Circular.

4.24 Competition

The apparel manufacturing industry is a global industry that is highly fragmented, with a large number of manufacturers with different scale of operations located in different countries. A large number of these manufacturers are located in Asia due primarily to, among other things, primarily the availability of manpower and low cost base. Based on the World Trade Statistical Review 2018 released by the World Trade Organisation, the PRC, Bangladesh, Vietnam and India rank among the top five (5), and Cambodia ranking as the ninth biggest, exporters of apparels in the world in 2016.⁽¹⁾ In view of the foregoing, the Target Group faces competition from manufacturers located not only in Malaysia and Cambodia, where the Target Group operates, but also globally and particularly in other parts of Asia.

Although there are many apparel manufacturers both regionally and globally, not all manufacturers are in direct competition with one another due to market segmentation, differences in product range, quality and scale of operations. In terms of market segmentation, the Target Group believes that it faces a fair amount of competition in the product categories of nightwear, lounge wear and casual wear for women. However, in comparison, the Target Group believes that it faces less competition in its niche focus of apparels for seniors and plus sizes apparels, due generally to less apparel manufacturers specialising in these categories.

Based on the Target Group's industry knowledge and experience, customers typically spread their purchases from manufacturers in different countries to diversify their business and operational risks, taking into account, among other things, costs, quality and level of tariffs payable for the import of products from the relevant countries. In this regard, customers from the EU and Canada generally tend to source for manufacturers from Cambodia and Bangladesh, while customers from the US traditionally tend to source for manufacturers from the PRC and Vietnam. As such, the Target Group believes that its main competitors are primarily manufacturers located in Cambodia, Bangladesh, the PRC and Vietnam.

Even though the Target Group competes in a highly competitive environment, the Target Group believes that its competitive strengths will enable it to distinguish itself from its competitors. See further Section 4.25 entitled "Competitive Strengths" of this Target Letter.

To the best of the New Directors' knowledge, none of the New Directors or Substantial Shareholders or their respective associates is related to or has any interest, direct or indirect, in any of the competitors in the jurisdictions mentioned above.

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To the best of the New Directors' knowledge, there are no known published statistics or official sources of information to establish the Target Group's market share in the apparel manufacturing industry.

Note:

- (1) The above information was extracted and compiled from the World Trade Statistical Review 2018 released by the World Trade Organisation.

4.25 Competitive Strengths

4.25.1 The Target Group has a strong, experienced and cohesive management team

The Target Group's management team has extensive experience in the textile and apparel industry. Its founder and managing director, Mr Lim Siau Hing, has accumulated close to 50 years of experience in the textile and apparel industry, including technical and managerial experience and knowledge in the knitting and dyeing of fabric as well as manufacturing of apparels. Mr Lim Siau Hing has been instrumental in spearheading the growth of the Target Group since 1988. Mr Lim Siau Hing will be appointed as the New Executive Director and Executive Chairman of the Company upon Completion.

Mr Lim Siau Hing is supported by Mr Lim Vhe Kai and Mr Chew Chong Kiat, both of whom joined the Target Group in 2002 and have since been working closely together as a team to build up and expand the apparel manufacturing business of the Target Group. Their extensive industry experience, network and in-depth knowledge of the Target Group's customers' needs have enabled the Target Group to grow over the years to become a reputable supplier to customers in the EU, the US and Canada. Mr Lim Vhe Kai will be appointed as the New Executive Director and CEO of the Company, and Mr Chew Chong Kiat will be appointed as the New Executive Officer and COO of the Company, upon Completion.

4.25.2 The Target Group differentiates itself from competitors by its co-creation business model

Against the backdrop of a rapidly evolving global apparel industry, the Target Group adopts a co-creation business model in order to address its customers' needs. Apart from product execution capabilities, the Target Group adds value by collaborating closely with customers on the product initiation process, involving the provision of valuable input to customers on product concept and design, raw material development and sourcing and apparel construction technology and methods.

The Target Group's customers have consistently placed great value on its co-creation business model, which is not easy for its competitors to replicate effectively. The close collaboration with customers which the co-creation business model entails has enabled the Target Group to gain valuable insights into constantly evolving fashion trends and market direction, allowing the Target Group to better understand the particular needs of individual customers as well as to initiate product concept and development with its customers at an earlier stage and turn new products into reality quickly, thus achieving higher speed-to-market.

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The Target Group believes that the co-creation business model enables the Target Group to provide to customers the right product at the right time and at the right costs.

4.25.3 The Target Group's long-term and strong relationship with its major customers

Consistent with its sales and marketing approach, the Target Group has through the years fostered long-term and very strong and stable relationships with a network of major customers. For instance, the Target Group has been working with Matalan Retail Limited for over twenty-five (25) years, and with Bluestem Brands, Inc, Fullbeauty Brands, Inc. and Kayser-Roth Corporation for more than ten (10) years, and Carter's, Inc. for more than five (5) years. To the best of the knowledge and belief of the New Directors, the Target Group is also amongst the top ten (10) suppliers to Matalan Retail Limited and Bluestem Brands, Inc. To the best of the knowledge and belief of the New Directors, the Target Group has consistently been highly ranked in Matalan Retail Limited's annual assessment of its wide and diverse network of suppliers. The Target Group has also been conferred "Vendor of the Year" and "Best on Time Delivery" awards by several brands within the brands portfolio of Bluestem Brands, Inc. between 2012 and 2015.

The New Directors believe that the above is testament of the success of the Target Group's co-creation business model and its ability to provide its customers with the right product at the right time at the right costs. The New Directors also believe that these same qualities will enable the Target Group to continue to increase sales to its existing major customers as well as develop new customers.

4.25.4 The Target Group's focus on the niche segment of apparels for seniors and plus sizes apparels

The Target Group's specialisation in apparels for seniors and plus sizes apparels, particularly in the US, enables it to gain a competitive edge over other suppliers in the apparels manufacturing industry. There is less competition in these niche segments, and the Target Group has built up a long-standing reputation with certain established customers that serve consumers in these niche markets based on its competitive pricing and high-quality products.

In the apparels for seniors segment, one of the Target Group's main customers is Bluestem Brands, Inc. The Orchard Brands Corporation owned by Bluestem Brands, Inc. comprise a stable of brands for apparels and home products that are described as focused on serving women and men above the age of 50. To the best of the knowledge and belief of the New Directors, the Target Group is amongst the top ten (10) suppliers to Bluestem Brands, Inc. As a showcase of the Target Group's strength in that segment, the Target Group was awarded the "Vendor of the Year" by Blair Corporation from 2012 to 2014 and by Haband in 2015, and the "Best on Time Delivery Award" in 2014 by Orchard Brands Corporation. Blair and Haband are brands under the stable of Orchard Brands.

In the plus sizes apparels segment, the Target Group's main customer is Fullbeauty Brands, Inc., which focuses on apparels for plus size women and men. During the period from FY2015 to FY2017, the Target Group has increased its sales to Fullbeauty Brands, Inc., resulting in it becoming one of the Target Group's top five (5) customers in FY2017, and continuing to be so in 1H2018.

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5. SELECTED FINANCIAL INFORMATION ON THE TARGET GROUP

The selected combined financial information on the Target Group for the Periods Under Review presented below should be read in conjunction with the full text of the Circular, including **Appendix C** entitled “Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor’s Report for the Financial Years Ended 31 December 2015, 2016 and 2017” and **Appendix E** entitled “Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor’s Report for the Six-Month Period ended 30 June 2018”.

Combined Statements of Comprehensive Income of the Target Group

RM'000	Audited			Unaudited	
	FY2015	FY2016	FY2017	1H2017	1H2018
Revenue	140,431	160,068	218,301	78,124	106,390
Cost of sales	(112,364)	(129,585)	(182,459)	(65,119)	(91,687)
Gross profit	28,067	30,483	35,842	13,005	14,703
Other items of income					
Interest income	234	244	251	4	117
Other income	489	573	1,492	200	75
Other items of expenses					
Administrative and general expenses	(10,616)	(11,940)	(16,084)	(7,884)	(8,267)
Selling and marketing expenses	(7,112)	(7,201)	(7,272)	(1,577)	(3,395)
Finance costs	(1,509)	(1,203)	(1,522)	(590)	(860)
Profit before tax	9,553	10,956	12,707	3,158	2,373
Income tax expense	(2,054)	(3,200)	(3,877)	(1,018)	(934)
Profit for the year/period	7,499	7,756	8,830	2,140	1,439
Other comprehensive income					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Foreign currency translation	2,021	638	(1,222)	(585)	(78)
Total comprehensive income for the year/period	9,520	8,394	7,608	1,555	1,361

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Combined Statements of Financial Position of the Target Group

RM'000	Audited as at 31 December 2017	Unaudited as at 30 June 2018
Assets		
Non-current asset		
Property, plant and equipment	44,979	50,476
Current assets		
Inventories	30,526	70,640
Trade and other receivables	51,304	42,882
Other current assets	1,320	1,261
Cash and short-term deposits	12,484	11,527
Total current assets	95,634	126,310
Total assets	140,613	176,786
Equity and liabilities		
Current liabilities		
Trade and other payables	48,071	66,776
Borrowings	40,210	51,432
Tax payable	1,712	1,630
Total current liabilities	89,993	119,838
Net current assets	5,641	6,472
Non-current liabilities		
Borrowings	9,910	15,624
Deferred tax liabilities	1,324	1,005
Total non-current liabilities	11,234	16,629
Total liabilities	101,227	136,467
Net assets	39,386	40,319
Equity attributable to the owner of the Company		
Share capital	— ⁽¹⁾	— ⁽¹⁾
Retained earnings	25,211	26,222
Merger reserve	11,532	11,532
Foreign currency translation reserve	2,643	2,565
Total equity	39,386	40,319
Total equity and liabilities	140,613	176,786

Note:

(1) The share capital of the Target Group as at 31 December 2017 and 30 June 2018 is less than RM1,000.

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6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION OF THE TARGET GROUP

The following discussion of the results of operations and financial position of the Target Group has been prepared by the management of the Target Group and should be read in conjunction with the full text of the Circular, including the "Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Financial Years Ended 31 December 2015, 2016 and 2017" and the "Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Six-Month Period Ended 30 June 2018" as set out in Appendix C and Appendix E to the Circular respectively.

The following discussion contains forward-looking statements that involve risks and uncertainties. The actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause the future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in the Circular, particularly in Section 16 entitled "Risk Factors" of the Circular. Under no circumstances should the inclusion of such forward-looking statements herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumption by the Company, the Target Group, or their respective advisers or any other person. Investors are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. Please refer to the section titled "Cautionary Note Regarding Forward-Looking Statements" of the Circular.

6.1 Overview

The Target Group is engaged in the apparel contract manufacturing business, specialising in nightwear, lounge wear, casual wear and plus sizes for men, women and children, and has more than 30 years of experience in the apparel manufacturing industry. The apparels are exported primarily to customers which are retailers in the EU, UK, US and Canada that sell apparel products under their own brand names. Headquartered in Malaysia, the apparels are manufactured at its manufacturing facility in Malaysia, and two (2) apparel manufacturing facilities in Cambodia. As at the Latest Practicable Date, these manufacturing facilities collectively operate a total of 35 production lines.

The Target Group implements a co-creation business model under which it is involved in the initiation, concept and design, and manufacturing, of apparels in close collaboration with its customers. Under this business model, the Target Group identifies and anticipates fashion trends, market direction and consumer preferences, and is involved in product initiation, concept and design, raw material development and sourcing, prototype making, and finalising product specifications in preparation for manufacturing. This enables the Target Group to provide a one-stop value-added platform to its customers from product origination, product execution to product finalisation in an efficient and cost-effective manner and in accordance with customers' requirements.

Please refer to Section 4.2 entitled "Business Overview" of this Target Letter for more information on the Target Group's business.

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The Target is a private company incorporated in Singapore and, as at the date hereof, has an issued and paid-up share capital of S\$2 comprising 2 Target Shares, all of which are legally and beneficially owned by the Vendor. The Target is the holding company of the Target Subsidiaries.

Please refer to Section 3.2 entitled “Group Structure” of this Target Letter further details on the Target Group’s structure.

For the purpose only of this Section 6 entitled “Management’s Discussion and Analysis of Results of Operations and Financial Position of the Target Group” of this Target Letter, the term “EU” refers to the European Union excluding the UK.

Revenue

The Target Group’s revenue is derived primarily from the sale of apparel products which they manufacture, to overseas customers located in the UK, EU, US and Canada. The Target Group’s total revenue amounted to approximately RM140.4 million, RM160.1 million, RM218.3 million, RM78.1 million and RM106.4 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

Revenue recognition

The Target Group recognises revenue to the extent that it is probable that the economic benefits will flow to the Target Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue from the sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Effective for annual financial periods beginning on or after 1 January 2018, the revenue is recognised when the Target Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

The Target Group’s revenue may be affected by, among others, the following factors:

- (a) the ability to continue meeting customers’ requirements and maintaining good working relationship with its customers, in particular its major customers;
- (b) the ability to increase its existing customer base and expand into new markets;
- (c) the amount of consumer discretionary income, retail spending, consumer confidence, population growth, tourist arrivals and the general outlook of economic, business and market conditions in the UK, EU, US and Canada;

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- (d) its ability to identify and cater to the changes in consumer tastes, preferences, demographics and market and fashion trends with commercially viable apparel products on an effective and timely basis;
- (e) its ability to compete effectively with existing competitors and new markets entrants to secure purchase orders from existing and new customers;
- (f) its ability to maintain and/or source for skilled workers as the nature of its operations is labour-intensive;
- (g) its ability to maintain the relevant licenses, registrations, permits, approvals or exemptions necessary for the Target Group's manufacturing operations; and
- (h) fluctuations in foreign currency exchange rates as revenue is primarily denominated in US\$ *vis-à-vis* their functional currency which is denominated in RM.

Cost of sales

The Target Group's cost of sales comprises mainly purchases of raw materials, such as fabric and accessories for the manufacture of apparel products, direct labour cost, sub-contracting cost, and other manufacturing overhead costs including production consumables, utilities, depreciation on property, plant and equipment and machine maintenance costs. The Target Group's cost of sales amounted to around RM112.4 million, RM129.6 million, RM182.5 million, RM65.1 million and RM91.7 million, which represented approximately 80.0%, 81.0%, 83.6%, 83.4% and 86.2% of the Target Group's total revenue, in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

Raw material costs

The cost of raw materials for the manufacture of apparel products accounted for approximately 74.7%, 72.8%, 73.3%, 74.2% and 76.2% of the Target Group's cost of sales for FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. The largest component of the Target Group's raw material costs is the purchase of fabric, yarn and accessories. The cost of fabric is dependent on various factors, including market supply and demand conditions of cotton, polyester and acrylic, quantity purchased as well as negotiations with the suppliers. Other raw materials consumed are packaging, embroidery and screen printing. The Target Group assesses its suppliers based on, among other things, the quality of the raw materials, pricing, reliability and timeliness of delivery. The Target Group sources its raw materials from both local and overseas suppliers.

Direct labour costs

Direct labour costs accounted for approximately 15.5%, 14.9%, 12.8%, 13.3% and 14.9% of the Target Group's cost of sales for FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. Direct labour costs include wages, overtime pay, bonuses, allowances and statutory contributions (including foreign labour levies) of workers engaged in its manufacturing facilities. The cost reflects the current local wage levels, labour market conditions and any changes in government policies of the workers' country of origin will affect the labour costs in the markets in which the Target Group operates.

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Sub-contracting costs

Sub-contracting costs accounted for approximately 4.5%, 6.8%, 9.2%, 6.8% and 5.2% of the Target Group's cost of sales for FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. The Target Group outsourced part of the production process of their products to their subcontractors, which are independent factories and most of their key sub-contractors are located in Malaysia and Cambodia, mainly to provide them with flexibilities in their production capacity planning. Sub-contracting fees are generally determined based on product specifications, estimated production time and labour cost for processing each order. As of the Latest Practicable Date, the Target Group's key sub-contractors had five (5) to twenty (20) years of relationship with the Target Group.

Manufacturing overhead costs

Manufacturing overhead costs accounted for approximately 5.3%, 5.5%, 4.6%, 5.6% and 3.7% of the Target Group's cost of sales for FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. Manufacturing overhead costs include costs directly attributable to the operation of the factory production activities such as, *inter alia*, factory rental, depreciation of property, plant and equipment, utilities, maintenance of machineries and equipment and upkeep of factory.

The Target Group's cost of sales may be affected by, among other things, the following factors:

- (a) fluctuations in the prices of raw materials including, fabric, yarn and accessories which may be affected by the demand and supply conditions;
- (b) its ability to negotiate with suppliers and sub-contractors on the prices of raw materials and sub-contracting services quoted to us;
- (c) labour costs which may be affected by demand and supply conditions;
- (d) fluctuations in the exchange rates of RM against US\$ as most of its purchases of raw materials are denominated in foreign currencies;
- (e) changes in government policy and regulations on pricing of utilities costs, changes in the foreign labour levies and quotas which may affects the supply and labour costs of foreign workers; and
- (f) labour disputes and claims which may erode the Target Group's profitability.

Interest Income

Interest income comprises mainly interest generated from fixed deposit and current account balances.

The Target Group's interest income amounted to around RM0.2 million, RM0.2 million, RM0.3 million, RM4,000 and RM0.1 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

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Other Income

Other income comprises mainly (i) gains on disposal of property, plant and equipment, (ii) income derived from the sub-contracting contracts from third-party customers, (iii) foreign currency exchange gains, (iv) rental income arising from the rental of a shop-lot to a third party (v) sale of samples, (vi) insurance claims, and (vii) sundry income.

The Target Group's other income amounted to around RM0.5 million, RM0.6 million, RM1.5 million, RM0.2 million and RM0.1 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

Administrative Expenses

Administrative expenses comprise mainly salaries and staff-related expenses (comprising directors' remuneration, salaries, bonuses and statutory contributions for the administrative and general operations functions, and other employee benefits), contract staff costs, bank charges, professional and legal fees, insurance expenses, printing and stationery expenses, telecommunication expenses, depreciation expenses in relation to motor vehicles and office equipment, utilities, and foreign currency exchange losses.

The Target Group's administrative expenses amounted to around RM10.6 million, RM11.9 million, RM16.1 million, RM7.9 million and RM8.3 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. These expenses represented approximately 7.6%, 7.5%, 7.4%, 10.1% and 7.8% of the Target Group's total revenue in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

Selling and Marketing Expenses

Selling and marketing expenses comprise mainly laboratory expenses, courier of sample expenses, air freight expenses, upkeep of motor vehicles expenses, telephone charges, apparel sourcing agent commission, airfares and travelling related expenses.

The Target Group's selling and marketing expenses amounted to around RM7.1 million, RM7.2 million, RM7.3 million, RM1.6 million and RM3.4 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. These expenses represented approximately 5.1%, 4.5%, 3.3%, 2.0% and 3.2% of the Target Group's total revenue in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

Finance Costs

Finance costs comprise mainly interest expense incurred on the borrowings, including bank overdrafts for working capital purposes, term loans, bankers' acceptance, trust receipts and foreign bill of exchange, and finance lease for motor vehicles under hire purchase.

The Target Group's finance costs amounted to around RM1.5 million, RM1.2 million, RM1.5 million, RM0.6 million and RM0.9 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively. These expenses represented approximately 1.1%, 0.8%, 0.7%, 0.8% and 0.8% of the Target Group's total revenue in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

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Income Tax Expense

The Target Group was subject to corporate tax at the applicable statutory tax rates in Singapore, Malaysia and Cambodia. The statutory corporate tax rates and effective tax rates applicable to the Target Group during the Periods Under Review are set out as follows:

	FY2015	FY2016	FY2017	1H2017	1H2018
Prevailing statutory tax rate in Singapore (%)	17.0	17.0	17.0	17.0	17.0
Prevailing statutory tax rate in Malaysia (%)	25.0	24.0	24.0	24.0	24.0
Prevailing statutory tax rate in Seychelles (%)	–	–	–	–	–
Prevailing statutory tax rate in Cambodia (%)	20.0	20.0	20.0	20.0	20.0
Effective tax rate of the Target Group (%)	21.5	29.2	30.5	32.2	39.4

The Target Group's income tax expenses amounted to around RM2.1 million, RM3.2 million, RM3.9 million, RM1.0 million and RM0.9 million in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively, which translated to an effective tax rate of approximately 21.5%, 29.2%, 30.5%, 32.2% and 39.4% in FY2015, FY2016, FY2017, 1H2017 and 1H2018 respectively.

As a majority of the Target Group's profit before income tax for FY2015, FY2016, FY2017, 1H2017 and 1H2018 were derived from Malaysia, a majority of the Target Group's profit was subject to Malaysian statutory income tax rate of 25.0% in FY2015 and 24.0% in FY2016, FY2017, 1H2017 and 1H2018.

For FY2015, the Target Group's effective tax rate was around 21.5% mainly due to a tax allowances from increased exports, which is a special incentive given by the Malaysian government to promote export activity ("**Tax Allowance**"). There is no expiry date for the Tax Allowance, as long as the Target Group (i) is a manufacturing company, (ii) is resident in Malaysia, and (iii) exports its manufactured products.

For FY2016, FY2017, 1H2017 and 1H2018, the Target Group's effective tax rate was approximately 29.2%, 30.5%, 32.2% and 39.4% respectively, due mainly to an absence of Tax Allowance and larger proportionate sum of the taxable income contributed by the Target Group's entities in Malaysia which is subject to a tax rate of 24% in Malaysia. Since FY2016, the Target Group did not enjoy the Tax Allowance as the orders were sub-contracted to the Cambodian Manufacturing Facilities, and thereafter the finished apparel products were exported directly from Cambodia to the Target Group's customers, and hence no increment of exports was recorded by the Malaysian entities.

For the Periods Under Review, the Target Group was not subjected to the Cambodia statutory income tax rate of 20% as the Target Group is currently under the Qualified Investment Programme ("**QIP**"), which exempts the Target Group from the payment of custom duties and profit tax.

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Certain intercompany sales from KTM to Xentika during the Periods Under Review are subject to Malaysian transfer pricing laws and regulations, pursuant to which KTM is required to determine and apply an arm's length price for such sales and also to maintain proper records to demonstrate that such sales were conducted at arm's length price. In addition, the terms of sales from Xentika to its US customers is similar to the terms of sales from KTM to the same US customers.

The Target Group believes KTM has maintained proper records, and that it has reasonable justification to maintain that such sales were transacted at arm's length prices, in compliance with Malaysian transfer pricing laws and regulations. The Independent Auditor to the Target Group have not carried out any independent verification that KTM has maintained the proper documentation required due to the following reasons, (i) the Directors of the Target Group confirm that the Target Group has maintained proper documentation as required under Malaysian transfer pricing laws and similarly is in compliance with the aforementioned laws and regulations, and (ii) the Directors of the Target Group are of the view that independent verification of documentation by the Independent Auditors to the Target Group is not required under Malaysian transfer pricing laws and regulations.

The directors of the Target Group confirm that there were no past additional tax liabilities and/or penalties imposed on the Target Group by the authorities. In addition, the Target Group's tax advisors were appointed by the Target Group to assist with the preparation of statement of corporate income tax status for FY2014 to FY2017, and are not aware of any existing or pending tax disputes between the Target Group's Malaysia subsidiaries and the Inland Revenue Board ("**IRB**") arising from tax audits or investigations carried out by the IRB for the said period.

Nevertheless, as a matter of prudence, the Vendor has executed the Vendor Undertaking in favour of the Company pursuant to which the Vendor has undertaken to, among other things, indemnify the Company and KTM in full against all losses (including taxes, additional taxes, penalties and/or interests) that may be suffered, sustained or incurred by the Company and/or KTM arising from such intercompany sales.

6.2 Seasonality

The Target Group typically observes an increase in demand for its apparel products in the second half of the year. This seasonality fluctuation results primarily from the higher demands of the Target Group's customers towards the year-end holiday and festive season, such as Thanksgiving, Christmas and New Year. As a result, the Target Group's sales are subject to seasonal fluctuations and, in particular, its sales are typically stronger in the second half of the year. In anticipation of, and during such periods of higher sales, the Target Group typically carries higher inventories and uses greater amount of working capital in the months leading up to such peak seasons. Due to these seasonal factors, comparison of the Target Group's revenue and results of operations between different periods within a single reporting financial year may not be meaningful and should not be relied upon as indicators of the Target Group's performance.

6.3 Inflation

Inflation in Malaysia and Cambodia did not have a material impact on the Target Group's operating performance during the Periods Under Review.

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6.4 Review of results of operations

A breakdown of the Target Group's revenue by geographical segments for the Periods Under Review is set out below:

	Audited						Unaudited			
	FY2015		FY2016		FY2017		1H2017		1H2018	
	RM'000	(%)	RM'000	(%)	RM'000	(%)	RM'000	(%)	RM'000	(%)
US	63,979	45.6	64,565	40.3	67,436	30.9	26,576	34.0	48,821	45.9
UK	55,175	39.2	58,257	36.4	85,231	39.0	29,841	38.2	33,015	31.0
Canada	15,108	10.8	23,596	14.8	36,364	16.7	13,473	17.3	13,101	12.3
EU	5,803	4.1	13,597	8.5	28,059	12.8	8,234	10.5	7,186	6.8
Other countries	366	0.3	53	n.m. ⁽¹⁾	1,211	0.6	—	—	4,267	4.0
Total	140,431	100.0	160,068	100.0	218,301	100.0	78,124	100.0	106,390	100.0

Note:

(1) Not meaningful.

FY2015 vs FY2016

Revenue

The Target Group's revenue increased by around RM19.6 million or approximately 14.0% from around RM140.4 million in FY2015 to around RM160.1 million in FY2016, due mainly to an increase in sales to Canada of around RM8.5 million, the EU of around RM7.8 million, UK of around RM3.0 million and US of around RM0.6 million, which was partially offset by a decrease in sales to other countries of around RM0.3 million.

Higher sales to the EU (excluding UK) were mainly contributed by new customers being secured. Higher sales to Canada, UK and US were mainly contributed by higher demand for the apparels sold by the existing customers.

Cost of Sales, Gross Profit and Gross Profit Margin

The Target Group's cost of sales increased by around RM17.2 million or approximately 15.3%, from around RM112.4 million in FY2015 to around RM129.6 million in FY2016 due to an increase in purchase of raw materials, direct labour costs, sub-contracting costs and other manufacturing overheads, which was in line with the increase of revenue.

The Target Group's gross profit increased by around RM2.4 million or approximately 8.6%, from around RM28.1 million in FY2015 to around RM30.5 million in FY2016 mainly due to higher sales achieved in FY2016.

The Target Group's gross profit margin decreased by 1.0 percentage point from approximately 20.0% in FY2015 to approximately 19.0% in FY2016 due mainly to higher sub-contracting costs to cope with the increase in sales during peak seasons.

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Interest Income

The Target Group's interest income increased by around RM10,000 or approximately 4.3% from around RM0.23 million in FY2015 to around RM0.24 million in FY2016 due mainly to an increase in interest income received from fixed deposits.

Other Income

The Target Group's other income increased by around RM0.1 million or approximately 17.2% from around RM0.5 million in FY2015 to around RM0.6 million in FY2016 due mainly to an increase in income derived from the sub-contracting contracts from third-party customers of around RM0.2 million, which was partially offset by decrease in gain on disposal of property, plant and equipment of around RM0.1 million.

Administrative Expenses

The Target Group's administrative expenses increased by around RM1.3 million or approximately 12.5% from around RM10.6 million in FY2015 to around RM11.9 million in FY2016 due mainly to an increase in (a) salaries and staff-related expenses of around RM1.0 million, (b) contract staff costs of around RM0.2 million, (c) insurance premiums of around RM0.2 million, (d) professional and legal fees of around RM0.1 million, (e) auditors' remuneration of around RM0.1 million, (f) allowance for doubtful debts of around RM0.1 million, (g) realised foreign exchange loss of around RM0.3 million, (h) repair and maintenance of office equipment and hostel of around RM0.05 million and (i) printing, postage and stationery of around RM0.05 million, which was partially offset by decrease in (i) loss on disposal of property, plant and equipment of around RM0.1 million, (ii) write-offs of property, plant and equipment of around RM0.2 million, (iii) sundry expenses of around RM0.1 million, and (iv) unrealised foreign currency exchange loss of around RM0.4 million.

Selling and Marketing Expenses

The Target Group's selling and marketing expenses increased by around RM0.1 million or approximately 1.3% from around RM7.1 million in FY2015 to around RM7.2 million in FY2016 mainly due to an increase in (a) travelling, transportation and accommodation expenses incurred by the Target Group's sales team for the promotion of their apparel products of around RM0.2 million, and (b) courier expenses of around RM0.1 million, partially offset by decrease in commission paid to apparel sourcing agent of around RM0.2 million.

Finance Costs

The Target Group's finance cost decreased by around RM0.3 million or approximately 20.3% from around RM1.5 million in FY2015 to around RM1.2 million in FY2016 mainly due to a decrease in interest expenses as a result of lower utilisation of trade financing.

Profit for the Year

As a result of the above, the profit for the year increased marginally by around RM0.3 million or approximately 3.4% from around RM7.5 million in FY2015 to around RM7.8 million in FY2016.

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FY2016 vs FY2017

Revenue

The Target Group's revenue increased by around RM58.2 million or approximately 36.4% from around RM160.1 million in FY2016 to around RM218.3 million in FY2017, due mainly to an increase in sales to UK of around RM26.9 million, EU of around RM14.5 million, Canada of around RM12.8 million, US of around RM2.9 million, and other countries of around RM1.1 million. Higher sales to US, EU, UK and Canada were mainly contributed by higher demand from existing customers. Higher sales to other countries were mainly contributed by new customers being secured.

Cost of Sales, Gross Profit and Gross Profit Margin

The Target Group's cost of sales increased by around RM52.9 million or approximately 40.8%, from around RM129.6 million in FY2016 to around RM182.5 million in FY2017 due to an increase in purchase of raw materials, direct labour costs, subcontracting fees and other manufacturing overheads which was in line with the increase in revenue.

The Target Group's gross profit increased by around RM5.4 million or approximately 17.6%, from around RM30.5 million in FY2016 to around RM35.8 million in FY2017 due mainly to higher sales achieved in FY2017.

The Target Group's gross profit margin decreased by 2.6 percentage points from approximately 19.0% in FY2016 to approximately 16.4% in FY2017, mainly due to an increase in (a) fabric prices, and (b) subcontracting costs to cope with the increase in sales during peak seasons.

Interest Income

The Target Group's interest income increased by around RM7,000 or approximately 2.9% from around RM0.24 million in FY2016 to around RM0.25 million in FY2017 due mainly to an increase in interest income received from current account balances.

Other Income

The Target Group's other income increased by around RM0.9 million or approximately 160.3% from around RM0.6 million in FY2016 to around RM1.5 million in FY2017 due mainly to an increase in (a) foreign currency exchange gains of around RM1.0 million, and (b) gains on disposal of property, plant and equipment of around RM0.1 million, which was partially offset by the decrease in (a) sale of samples of around RM0.1 million, (b) insurance compensation of around RM0.05 million, and (c) sundry income of around RM0.05 million.

Administrative Expenses

The Target Group's administrative expenses increased by around RM4.1 million or approximately 34.7% from around RM11.9 million in FY2016 to around RM16.1 million in FY2017 due mainly to an increase in (a) one-off withholding tax imposed on services rendered outside Malaysia of around RM2.7 million, (b) salaries and staff-related expenses of around RM0.8 million, (c) professional and legal fees of around RM1.0 million, (d) penalties on late payment of withholding tax of around RM0.4 million, and (e) printing and stationery of around RM0.1 million, which was partially offset by the decrease in (a) allowance for doubtful debts of around RM0.1 million, (b) contract staff costs of around RM0.2 million, (c) insurance premiums of around RM0.2 million, (d) realised and unrealised foreign currency exchange losses of around RM0.4 million.

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Selling and Marketing Expenses

The Target Group's selling and marketing expenses increased by around RM0.1 million or approximately 1.0% from around RM7.2 million in FY2016 to around RM7.3 million in FY2017 due mainly to an increase in (a) air freight expenses of around RM0.8 million arising from delays on shipment, (b) travelling, transportation and accommodation expenses of around RM0.1 million, (c) laboratory test expenses of around RM0.4 million, and (d) courier expenses of around RM0.1 million, which was partially offset by a decrease in commission paid to apparel sourcing agent of around RM1.3 million due to rebate from sourcing agent.

Finance Costs

The Target Group's finance costs increased by around RM0.3 million or approximately 26.5% from around RM1.2 million in FY2016 to around RM1.5 million in FY2017 due mainly to an increase in interest expenses incurred on trade financing.

Profit for the Year

As a result of the above, the profit for the year increased by around RM1.1 million or approximately 13.8% from around RM7.7 million in FY2016 to around RM8.8 million in FY2017.

1H2017 vs 1H2018

Revenue

The Target Group's revenue increased by around RM28.3 million or approximately 36.2% from around RM78.1 million in 1H2017 to around RM106.4 million in 1H2018, due mainly to an increase in sales to US of around RM22.2 million, other countries of around RM4.3 million and UK of around RM3.2 million, which was partially offset by a decrease in sales to the EU of around RM1.0 million, and Canada of around RM0.4 million.

Higher sales to UK and US were mainly due to higher demand for the apparels sold to existing customers. In particular, two of its existing customers had shifted its orders to the Target Group when their suppliers in Taiwan and Cambodia had ceased operations. Sales increase in other countries were contributed by new customers secured. Lower sales to Canada and EU were mainly due to lower demand for the apparels sold to existing customers.

Cost of Sales, Gross Profit and Gross Profit Margin

The Target Group's cost of sales increased by around RM26.6 million or approximately 40.8%, from around RM65.1 million in 1H2017 to around RM91.7 million in 1H2018 due to an increase in purchase of raw materials, direct labour costs and subcontracting costs to cope with the increase in sales arising from two of its existing customers.

The Target Group's gross profit increased by around RM1.7 million or approximately 13.1%, from around RM13.0 million in 1H2017 to around RM14.7 million in 1H2018, due mainly to higher sales achieved in 1H2018.

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The Target Group's gross profit margin decreased by 2.8 percentage points from approximately 16.6% in 1H2017 to approximately 13.8% in 1H2018, due mainly to (a) competitive selling price, and (b) higher raw material and direct labour costs and subcontracting costs incurred to meet the tight production timeline.

Interest Income

The Target Group's interest income increased by around RM113,000 or approximately 2825.0%, from around RM4,000 in 1H2017 to around RM117,000 in 1H2018 due mainly to an increase in interest income received from fixed deposits and current account balances.

Other Income

The Target Group's other income decreased by around RM0.1 million or approximately 62.5% from around RM0.2 million in 1H2017 to around RM0.1 million in 1H2018 mainly due a decrease in subcontracting income of around RM0.2 million, which was partially offset by gain on disposal of property, plant and equipment of around RM0.1 million.

Administrative Expenses

The Target Group's administrative expenses increased by around RM0.4 million or approximately 4.9% from around RM7.9 million in 1H2017 to around RM8.3 million in 1H2018 due mainly to increase in (a) salaries and staff-related expenses of around RM1.1 million, (b) realised foreign currency exchange losses of around RM0.4 million, (c) bank charges of around RM70,000, (d) auditors' remuneration of around RM44,000, (e) repair and maintenance of office equipment and hostel of around RM0.1 million, (f) advertising of around RM38,000, and (g) allowances of doubtful debts of around RM58,000, which was partially offset by decrease in (a) unrealised foreign currency exchange losses of around RM0.7 million, (b) professional, legal and stamp duty fees of around RM0.2 million, (c) penalties on late payment of withholding tax of around RM0.1 million, (d) insurances premiums of around RM0.2 million, (e) contract staff costs of around RM0.2 million and (f) printing, postage and stationary of around RM63,000.

Selling and Marketing Expenses

The Target Group's selling and marketing expenses increased by around RM1.8 million or approximately 115.3% from around RM1.6 million in 1H2017 to around RM3.4 million in 1H2018 due mainly to an increase in (a) sales commission paid to apparel sourcing agent of around RM1.5 million, (b) air freight expenses of around RM0.2 million arising from delays on shipment, (c) travelling transportation and accommodation expenses of around RM0.1 million, (d) laboratory test expenses of around RM48,000, and (e) courier expenses of around RM35,000.

Finance Costs

The Target Group's finance costs increased by around RM0.3 million or approximately 45.7% from around RM0.6 million in 1H2017 to around RM0.9 million in 1H2018 mainly due to an increase in interest expenses incurred on trade financing.

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Profit for the Year

As a result of the above, the profit for the period decreased by approximately RM0.7 million or approximately 32.8% from around RM2.1 million in 1H2017 to around RM1.4 million in 1H2018.

6.5 Review of Financial Position

As at 31 December 2017

Current Assets

As at 31 December 2017, the Target Group's current assets amounted to around RM95.6 million, representing approximately 68.0% of its total assets. The Target Group's current assets comprised the following:

- (a) inventories amounted to around RM30.5 million or approximately 31.9% of the Target Group's total current assets, comprising (i) raw materials of around RM16.6 million, (ii) work-in-progress of around RM10.1 million, and (iii) finished goods of around RM3.8 million;
- (b) trade and other receivables amounted to around RM51.3 million, representing approximately 53.6% of the Target Group's total current assets, comprising (i) amount due from trade debtors of around RM47.1 million, and (ii) other receivables of around RM4.2 million. Other receivables comprised rental and utilities deposits, goods and services tax recoverable and sundry receivables;
- (c) other current assets amounted to around RM1.3 million, representing approximately 1.4% of the Target Group's total current assets, comprising (i) advance payments to suppliers of around RM0.8 million, and (ii) prepayments of insurance premiums of around RM0.5 million; and
- (d) cash and short-term deposits of around RM12.5 million or approximately 13.1% of the Target Group's total current assets comprising (i) deposits with licensed banks of around RM8.3 million, and (ii) cash on hand and at banks of around RM4.2 million.

Non-Current Assets

As at 31 December 2017, the Target Group's non-current assets amounted to around RM45.0 million, representing approximately 32.0% of its total assets. The Target Group's non-current assets comprised property, plant and equipment amounted to around RM45.0 million or 100% of the Target Group's total non-current assets, comprising (i) leasehold land and buildings of around RM11.7 million, (ii) freehold land of around RM6.8 million, (iii) plant, machinery and factory fittings of around RM11.3 million, (iv) building under construction of around RM9.2 million, (v) office equipment, furniture and fittings, renovation and computers of around RM3.6 million, (vi) motor vehicles of around RM1.3 million, and (vii) electrical installation of around RM1.1 million.

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Current Liabilities

As at 31 December 2017, the Target Group's current liabilities amounted to around RM90.0 million, representing approximately 88.9% of its total liabilities. The Target Group's current liabilities comprised the following:

- (a) trade and other payables amounted to around RM48.1 million or approximately 53.4% of the Target Group's total current liabilities, comprising (i) trade payables of around RM27.2 million, (ii) amount owing to directors of around RM10.8 million, and (iii) other payables and accruals of around RM10.1 million;
- (b) borrowings amounted to around RM40.2 million or approximately 44.7% of the Target Group's total current liabilities, comprising (i) trust receipts of around RM20.8 million, (ii) bankers' acceptances of around RM8.0 million, (iii) bank overdrafts of around RM0.4 million, (iv) invoice financing of around RM5.9 million, (v) current portion of term loans of around RM4.8 million, and (vi) finance leases of around RM0.3 million; and
- (c) tax payable amounted to around RM1.7 million or approximately 1.9% of the Target Group's total current liabilities and represents the amount provided for tax liabilities for the subsidiary in Malaysia.

Non-Current Liabilities

As at 31 December 2017, the Target Group's non-current liabilities amounted to around RM11.2 million, representing approximately 11.1% of its total liabilities. The Target Group's non-current liabilities comprised the following:

- (a) borrowings amounted to around RM9.9 million or approximately 88.2% of the Target Group's total non-current liabilities, comprising (i) term loans of around RM9.4 million, and (ii) finance leases of around RM0.5 million; and
- (b) deferred tax liabilities amounted to around RM1.3 million or approximately 11.8% of the Target Group's total non-current liabilities.

Equity

As at 31 December 2017, total equity amounted to around RM39.4 million.

As at 30 June 2018

Current Assets

As at 30 June 2018, the Target Group's current assets amounted to around RM126.3 million, representing approximately 71.4% of its total assets. The Target Group's current assets comprised the following:

- (a) inventories amounted to around RM70.6 million or approximately 55.9% of the Target Group's total current assets, comprising (i) raw materials of around RM26.4 million, (ii) work-in-progress of around RM32.7 million, and (iii) finished goods of around RM11.5 million;

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- (b) trade and other receivables amounted to around RM42.9 million, representing approximately 33.9% of the Target Group's total current assets, comprising (i) amount due from trade debtors of around RM38.7 million, and (ii) other receivables of around RM4.2 million. Other receivables comprised rental and utilities deposits, goods and services tax recoverable and sundry receivables;
- (c) other current assets amounted to around RM1.3 million, representing approximately 1.0% of the Target Group's total current assets, comprising (i) advance payments to suppliers of around RM0.8 million, and (ii) prepayments of insurance premiums of around RM0.5 million; and
- (d) cash and short-term deposits of around RM11.5 million or approximately 9.1% of the Target Group's total current assets comprising (i) deposits with licensed banks of around RM4.7 million, and (ii) cash on hand and at banks of around RM6.8 million.

Non-Current Assets

As at 30 June 2018, the Target Group's non-current assets amounted to around RM50.5 million, representing approximately 28.6% of its total assets. The Target Group's non-current assets comprised property, plant and equipment amounted to around RM50.5 million or 100% of the Target Group's total non-current assets, comprising (i) leasehold land and buildings of around RM11.6 million, (ii) freehold land of around RM6.8 million, (iii) plant, machinery and factory fittings of around RM13.8 million, (iv) buildings under construction of around RM12.9 million, (v) office equipment, furniture and fittings, renovation and computers of around RM3.4 million, (vi) motor vehicles of around RM1.1 million, and (vii) electrical installation of around RM0.9 million.

Current Liabilities

As at 30 June 2018, the Target Group's current liabilities amounted to around RM119.8 million, representing approximately 87.8% of its total liabilities. The Target Group's current liabilities comprised the following:

- (a) trade and other payables amounted to around RM66.8 million or approximately 55.7% of the Target Group's total current liabilities, comprising (i) trade payables of around RM46.6 million, (ii) amount owing to directors of around RM8.7 million, and (iii) other payables and accruals of around RM11.5 million;
- (b) borrowings amounted to around RM51.4 million or approximately 42.9% of the Target Group's total current liabilities, comprising (i) trust receipts of around RM30.0 million, (ii) bankers' acceptances of around RM12.2 million, (iii) bank overdrafts of around RM0.2 million, (iv) invoice financing of around RM5.8 million, (v) current portion of term loans of around RM2.9 million, and (vi) finance leases of around RM0.3 million; and
- (c) tax payable amounted to around RM1.6 million or approximately 1.4% of the Target Group's total current liabilities and represents the amount provided for tax liabilities for the subsidiary in Malaysia.

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Non-Current Liabilities

As at 30 June 2018, the Target Group's non-current liabilities amounted to around RM16.6 million, representing approximately 12.2% of its total liabilities. The Target Group's non-current liabilities comprised the following:

- (a) borrowings amounted to around RM15.6 million or approximately 94.0% of the Target Group's total non-current liabilities, comprising (i) term loans of around RM15.2 million, and (ii) finance leases of around RM0.4 million; and
- (b) deferred tax liabilities amounted to around RM1.0 million or approximately 6.0% of the Target Group's total non-current liabilities.

Equity

As at 30 June 2018, total equity amounted to around RM40.3 million.

6.6 Liquidity and capital resources

During the Periods Under Review, the Target Group has two sources of cash, being internally derived and externally derived. Internally derived sources refer to cash generated from the Target Group's operating activities. Externally derived sources of funds comprise mainly credit granted by suppliers and banking facilities from financial institutions. The Target Group's principal uses of cash have been for working capital requirements, and capital expenditure.

Based on the unaudited interim combined statement of financial position of the Target Group as at 30 June 2018, the Target Group's working capital ratio (defined as current assets divided by current liabilities) was approximately 1.1 times and the gearing ratio (defined as net debt (comprising borrowings, trade and other payables, less cash and short-term deposits), divided by total equity) was approximately 3.0 times.

Based on the unaudited interim combined statement of financial position as at 30 June 2018, the Target Group has cash and bank balances of around RM11.5 million. The Target Group utilised around RM48.3 million of its available credit facilities (comprising term loans, bank overdrafts and trust receipts) of around RM49.2 million as at 30 June 2018. The interest rates ranged from 1.27% to 4.93% per annum.

As at the Latest Practicable Date, the Target Group had cash and bank balances of around RM7.3 million. The Target Group utilised around RM44.3 million of its available credit facilities (comprising term loans, bank overdrafts and trust receipts) of around RM49.2 million as at the Latest Practicable Date. The interest rate ranged from 1.20% to 5.32% per annum.

The New Directors of the Enlarged Group are of the reasonable opinion that, after taking into consideration the above, having made due and careful enquiry, assuming the payment of amounts owing to Mr Lim Siau Hing and Mr Lim Vhe Kai amounting to RM5,135,000 (of which RM2,135,000 and RM3,000,000 is payable by 31 December 2018 and 31 March 2019 respectively), and after taking into account the expected cash flows generated from the Enlarged Group's operations, the expected cash flow requirements for business expansion plans, the Enlarged Group's banking facilities, and the Enlarged Group's existing cash in banks and on hand, the working capital available to the Enlarged Group as at the date of this Circular is sufficient to meet its present requirements and for at least 12 months after Completion.

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The Sponsor is of the reasonable opinion that, after taking into consideration the above, having made due and careful enquiry and after taking into account, the repayment of amounts owing to Mr Lim Siau Hing and Mr Lim Vhe Kai amounting to RM5,135,000 (of which RM2,135,000 and RM3,000,000 is repayable by 31 December 2018 and 31 March 2019 respectively), the expected cash flows generated from the Enlarged Group's operations, the expected cash flow requirements for business expansion plans, the Enlarged Group's banking facilities, and the Enlarged Group's existing cash in banks and on hand, the working capital available to the Enlarged Group as at the date of this Circular is sufficient to meet its present requirement and for at least 12 months after the Completion.

A summary of the combined cash flow statements for FY2015, FY2016 and FY2017, 1H2017 and 1H2018 is set out below:

(RM'000)	Audited			Unaudited	
	FY2015	FY2016	FY2017	1H2017	1H2018
Net cash flows from/(used in) operating activities	11,560	11,092	(5,554)	(10,225)	(6,035)
Net cash flows used in investing activities	(2,402)	(3,358)	(16,105)	(1,712)	(7,400)
Net cash flows (used in)/from financing activities	(6,394)	(4,461)	17,712	12,123	16,327
Net increase/(decrease) in cash and cash equivalents	2,764	3,273	(3,947)	186	2,892
Effect of exchange rates changes on cash and cash equivalent	106	88	(246)	(54)	(36)
Cash and cash equivalents at beginning of the financial years/periods	1,720	4,590	7,951	7,951	3,758
Cash and cash equivalents at end of the financial years/periods	4,590	7,951	3,758	8,083	6,614

FY2015

In FY2015, net cash flows from operating activities amounted to around RM11.6 million due to (a) operating cash flows before movements in working capital of around RM14.4 million, and (b) a decrease in receivables of around RM3.9 million, which was partially offset by an increase in (i) inventories of around RM3.9 million; (ii) other assets of around RM0.2 million; and (iii) decrease in payables of around RM0.3 million. In addition, the Group paid interest and income taxes of around RM1.5 million and around RM0.8 million respectively.

Net cash used in investing activities amounted to around RM2.4 million due to (a) purchase of property, plant and equipment of around RM3.1 million, partially offset by (a) proceeds from disposal of property, plant and equipment of around RM0.5 million, and (b) interest income of around RM0.2 million.

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Net cash used in financing activities amounted to around RM6.4 million due to (a) repayment of term loan and short term borrowings of around RM4.6 million, (b) repayment of finance leases of around RM0.5 million, (c) placement of deposits pledged for securities of around RM0.8 million, and (d) dividends paid of around RM0.5 million.

As a result of the above, there was a net increase of around RM2.8 million in cash and cash equivalents. As at 31 December 2015, the Target Group's cash and cash equivalents amounted to around RM4.6 million.

FY2016

In FY2016, net cash flows from operating activities amounted to around RM11.1 million due to (a) operating profit before movements in working capital of around RM15.8 million, and (b) an increase in payables of around RM4.2 million, which was partially offset by an increase in (i) inventories of around RM0.7 million; (ii) trade and other receivables of around RM4.0 million, and (iii) other current assets of around RM0.4 million. In addition, the Group paid interest and income taxes of around RM1.2 million and around RM2.6 million respectively.

Net cash used in investing activities amounted to around RM3.4 million due to purchase of property, plant and equipment of around RM3.8 million, which was partially offset by (a) proceeds from disposal of property, plant and equipment of around RM0.2 million, and (b) interest received from deposit placement of around RM0.2 million.

Net cash used in financing activities amounted to around RM4.5 million due to (a) repayment of term loan and short term borrowings of around RM4.3 million, (b) placement of deposits pledged for securities of around RM0.2 million, (c) repayment of finance leases of around RM0.2 million and (d) dividends paid of around RM1.4 million, which was partially offset by drawdown of term loan facility of around RM1.6 million.

As a result of the above, there was a net increase of around RM3.3 million in cash and cash equivalents. As at 31 December 2016, the Target Group's cash and cash equivalents amounted to around RM8.0 million.

FY2017

For FY2017, net cash used in operating activities amounted to around RM5.5 million taking into account the profit after tax of RM8.8 million, adjusted for working capital outflows of RM18.6 million. The net working capital increase was mainly due to an increase in (a) inventories of around RM5.1 million which was primarily due to an increase in purchase of raw materials as a result of higher orders from its existing customers, and (b) trade and other receivables of around RM31.1 million which was due to an increase in purchases of raw materials in tandem with higher sales. The increase was partially offset by increase in trade and other payables of around RM17.4 million due to directors and/or shareholders resulting from dividends declared, and decrease in other current assets of around RM0.2 million. In addition, the Target Group paid interest and income taxes of around RM1.5 million and around RM2.7 million respectively.

Net cash used in investing activities amounted to around RM16.1 million due to purchase of property, plant and equipment of around RM16.8 million, which was partially offset by (a) proceeds from disposal of property, plant and equipment of around RM0.4 million, and (b) interest income received from deposit placement of around RM0.3 million.

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Net cash flows from financing activities amounted to around RM17.7 million due to drawdown of term loan and short term borrowings of around RM21.4 million, which was partially offset by (a) repayment of term loan of around RM1.8 million, (b) placement of deposits pledged for securities of around RM0.2 million, (c) repayment of finance leases of around RM0.3 million and (d) dividends paid of around RM1.4 million.

As a result of the above, there was a net decrease of around RM3.9 million in cash and cash equivalents. As at 31 December 2017, the Target Group's cash and cash equivalents amounted to around RM3.8 million.

1H2017

For 1H2017, net cash used in operating activities amounted to around RM10.2 million taking into account the profit after tax of RM2.1 million, adjusted for working capital outflows of RM15.4 million. The net working capital increase was mainly due to (a) increase in inventories of around RM15.5 million and (b) increase in receivables of around RM4.0 million, which was partially offset by (a) increase in payables of around RM2.9 million, and (b) decrease in other current assets of around RM1.1 million. In addition, the Target Group paid interest and income tax of around RM0.5 million and around RM1.2 million respectively.

Net cash used in investing activities amounted to around RM1.7 million due to purchase of property plant and equipment.

Net cash flows from financing activities amounted to around RM12.1 million due to drawdown of short term borrowings of around RM13.6 million, partially offset by (a) repayment of term loan of around RM0.8 million, (b) repayment of finance leases of around RM0.1 million and (c) dividends paid of around RM0.6 million.

As a result of the above, there was a net increase of around RM0.2 million in cash and cash equivalents. As at 30 June 2017, the Target Group's cash and cash equivalents amounted to around RM8.1 million.

1H2018

For 1H2018, net cash used in operating activities amounted to around RM6.0 million taking into account the profit after tax of RM1.4 million, adjusted for working capital outflows of RM9.7 million. The net working capital increase was mainly due to increase in inventories of around RM40.1 million as a result of increase in purchase of raw materials, an increase in work-in-progress and an increase in finished goods as a result of higher orders from its existing customers and orders from new customers secured, which was partially offset by (a) increase in payables of around RM21.9 million due to an increase in purchases of raw materials in anticipation of higher sales in 2H2018, (b) decrease in receivables of around RM8.5 million as a result of prompt payment from its customers, and (c) decrease in other current assets of around RM0.05 million. In addition, the Target Group paid interest and income tax of around RM0.9 million and around RM1.3 million respectively.

Net cash used in investing activities amounted to around RM7.4 million due to purchase of property plant and equipment of around RM7.6 million, which was partially offset by (a) proceeds from disposal of property, plant and equipment of around RM0.1 million, and (b) interest received from deposit placement of around RM0.1 million.

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Net cash flows from financing activities amounted to around RM16.3 million due to (a) drawn down of term loan and short term borrowings of around RM18.7 million, and (b) discharge of deposits pledged for securities of around RM3.6 million, which was partially offset by (a) repayment of term loan of around RM2.0 million, (b) repayment of finance leases of around RM0.1 million, and (c) dividends paid of around RM3.8 million.

As a result of the above, there was a net increase of around RM2.9 million in cash and cash equivalents. As at 30 June 2018, the Target Group's cash and cash equivalents amounted to around RM6.6 million.

6.7 Capitalisation and indebtedness

The table below shows cash and cash equivalents, capitalisation and indebtedness of the Target as at 31 December 2017 and as at 31 October 2018, being a date no earlier than 60 days before the date of this Circular, based on the Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its Subsidiaries with Independent Auditor's Report for the Financial Year Ended 31 December 2017 and the combined management accounts of the Target Group as at 31 October 2018:

	As at 31 December 2017 (RM'000)	As at 31 October 2018 (RM'000)
Cash and cash equivalents	3,758	7,506
Indebtedness		
<u>Current</u>		
Secured and non-guaranteed	—	—
Secured and guaranteed	40,210	44,336
Unsecured and non-guaranteed		
Unsecured and guaranteed	—	3,614
<u>Non-current</u>		
Secured and non-guaranteed	—	—
Secured and guaranteed	9,910	15,511
Unsecured and non-guaranteed	—	—
Unsecured and guaranteed	—	—
Total Indebtedness	50,120	63,461
Total equity	39,386	43,828
Total capitalisation and indebtedness	89,506	107,289

Save as disclosed above, there has been no material change in the Target Group's capitalisation and indebtedness from 31 October 2018 up to the Latest Practicable Date.

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As at the Latest Practicable Date, details of the Target Group's facilities are as follows:

Financial institution	Nature of facility	Amount of facilities granted (RM'000)	Amount utilised (RM'000)	Amount unutilised (RM'000)	Interest rate	Maturity Profile
Malayan Banking Berhad	Working capital ⁽¹⁾	8,000	7,850	150	5.28% – 5.32%	Between 120 days to 150 days
Maybank Islamic Berhad	Working capital ⁽²⁾	4,000	3,425	575	5.28%	Between 120 days to 150 days
Standard Chartered Bank Malaysia Berhad	Working capital ⁽³⁾	15,800	13,758	2,042	4.05% – 4.99%	Between 60 and 120 days, except for bond and guarantees which have a maximum tenor of 24 months
United Overseas Bank (Malaysia) Berhad	Working capital ⁽⁴⁾	21,400	19,265	2,135	1.20% – 4.86%	Between 90 days to 120 days
Total		49,200	44,298	4,902		

Notes:

- (1) Includes overdraft, letter of credit, trust receipt, banker's acceptance, export credit and refinancing.
- (2) Includes accepted bills, letter of credit, trust receipt, on-shore foreign currency financing, exports credit refinancing and bank guarantee.
- (3) Includes import letter of credit (secured and unsecured), shipping guarantees, banker's acceptances, export bills discounting D/P, import loan, import invoice financing, export invoice financing and bond and guarantees.
- (4) Includes overdraft, letter of credit, trust receipt, foreign currency trust receipt, banker's acceptance – purchase and sale, invoice financing, shipping guarantee, financial guarantee, performance guarantee, bills of exchange purchase, guarantee, foreign exchange contracts and spot foreign exchange contracts.

As at the Latest Practicable Date, details of the Target Group's hire purchase are as follows:

Financial institution	Nature of facility	Amount of facilities granted (RM'000)	Amount utilised (RM'000)	Amount unutilised (RM'000)	Interest rate	Maturity Profile
Hong Leong Bank Berhad	Hire purchase facility for 10 motor vehicles	833	833	–	2.39% – 2.84%	Between December 2018 and May 2022
Total		833	833	–		

As at the Latest Practicable Date, to the best of the New Directors' knowledge, the Target Group is not in breach of any terms and conditions or covenants associated with any credit arrangement or bank loan which could materially affect the Target Group's financial position and results of business operations, or the investments of our Shareholders.

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6.8 Capital Expenditure and Divestments and Commitments

Capital Expenditures

The Target Group's capital expenditures during the Periods Under Review and up to the Latest Practicable Date were as follows:

(RM'000)	FY2015	FY2016	FY2017	1H2018	1 January 2018 to the Latest Practicable Date
Freehold land	–	–	6,610	–	–
Leasehold land and buildings	87	1,278	–	95	108
Building in progress	–	–	9,163	3,692	4,194
Plant and machinery and factory fittings	2,552	2,182	543	3,604	3,706
Electrical installation	39	–	–	–	33
Office equipment, furniture and fittings, renovation and computer	349	255	207	217	632
Motor vehicles	690	202	737	–	267
Total	3,717	3,917	17,260	7,608	8,940

With a view to raise efficiency and productivity, the Target Group acquired and installed the Euratex automated apparel hanger conveyor system into its sewing process at the KTM Manufacturing Facility and Callisto Cambodia manufacturing facility in FY2015 and FY2016 respectively. In line with the expansion of the Target Group's business operations, the Target Group separately acquired two (2) plots of land in FY2016 and FY2017. Subsequently, the Target Group commenced construction of the New Fabric Dyeing Facility on one of the two (2) plots of land acquired and installation of plant and machinery in FY2017 and 1H2018 respectively.

Purchase of motor vehicles in FY2015, FY2016, FY2017 and for the period from 1 January 2018 to the Latest Practicable Date was for the use of certain employees of the Target Group, for the purpose of running the business operations.

The above capital expenditures were financed by a combination of finance leases, term loans and internally generated funds.

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Capital Divestments

The Target Group's capital divestments during the Periods Under Review and up to the Latest Practicable Date were as follows:

(RM'000)	FY 2015	FY 2016	FY 2017	1H2018	1 January 2018 to Latest Practicable Date
Freehold land	–	–	45	–	–
Leasehold land and buildings	–	–	105	–	–
Plant and machinery and factory fittings	334	79	–	1,274	1,276
Office equipment, furniture and fittings, renovation and computer	3	–	–	2	5
Motor vehicles	715	265	471	–	–
Total	1,052	344	621	1,276	1,281

The Target Group's capital divestments increased from RM0.6 million in FY2017 to RM1.3 million in 1H2018 and for the period 1 January 2018 to the Latest Practicable Date mainly due to the purchase and installation of new sewing machines to replace the existing sewing machines.

Capital Commitments

As at the Latest Practicable Date, the Target Group had capital commitments of approximately RM2.0 million relating to the purchase of machineries for the New Fabric Dyeing Facility.

Operating Lease Commitments

Target Group as lessee

The Target Group had the following operating lease commitments:

RM'000	Audited as at 31 December 2017	Unaudited as at 30 June 2018	As at Latest Practicable Date
Not later than one year	1,258	1,195	1,358
Later than one year but not later than five years	769	327	5,505
More than five years	–	–	1,014
Total	2,027	1,522	7,877

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Contingent Liabilities

As at the Latest Practicable Date, the Target Group is not aware of any contingent liabilities which may have a material effect on the financial position and profitability the Target Group.

6.9 Foreign exchange management

6.9.1 Accounting treatment of foreign currencies

The combined financial statements are presented in RM, which is also the functional currency of the Target Group. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are recorded on initial recognition in the respective functional currencies of the Target Group and its subsidiaries at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translation of monetary items at the end of the reporting period are recognised in profit or loss.

6.9.2 Foreign exchange exposure

The Target Group's sales and purchases are mainly denominated and transacted in US Dollars.

To the extent that the Target Group's sales and purchases are not naturally matched in the same currency and to the extent that there are timing differences between invoicing and the payments to suppliers, the Target Group will be exposed to foreign currency exchange gains or losses arising from transactions in currencies other than its functional currency.

The Target Group's net foreign exchange exposure for the Periods Under Review was as follows:

RM'000	Audited			Unaudited	
	FY2015	FY2016	FY2017	1H2017	1H2018
Net foreign exchange (loss)/gain	(604)	(413)	1,056	(1,366)	(1,081)
As a percentage of revenue	0.4%	0.3%	0.5%	1.7%	1.0%
As a percentage of profit before tax	6.3%	3.8%	8.3%	43.3%	45.6%

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The Target Group currently does not have a formal hedging policy, but assesses each transaction on a case by case basis. The Target Group continues to monitor its foreign exchange exposure and will hedge any material foreign exchange exposure when the need arises. The Target Group will put in place, when necessary, procedures to hedge its exposure to foreign currency fluctuations. Such procedures will be reviewed and approved by the New Audit Committee and the New Board to be in line with the foreign exchange management policy.

6.9.3 Foreign exchange control

(a) Malaysia

With the coming into effect of the FSA and the IFSA, all previously issued Exchange Control Notices and related circulars were revoked by Bank Negara effective 30 June 2013. In its place, Bank Negara in exercising its powers under the FSA and the IFSA issued seven (7) new notices, setting out guidelines on transactions that require the approval of Bank Negara which are otherwise prohibited under the FSA and the IFSA.

Consistent with the previous Exchange Control Notices, foreign direct investors continue to have the freedom to repatriate their investment including capital, profit and dividends without being subject to any levy. There are also no restrictions on the repatriation of capital, profits, dividends, interests, fees or rental incomes by foreign direct investors or portfolio investors.

(b) Cambodia

The Law on Foreign Exchange dated 22 August 1997 governs foreign exchange operations in Cambodia. Such law imposes no restrictions on foreign exchange operations through book entries, including purchases and sales of foreign exchange on the foreign exchange market, transfers, all kinds of international settlements, and capital flows in foreign or domestic currency between Cambodia and other countries or between residents and non-residents. This includes any transfers relating to investment or liquidation (such as remittances of dividends or repatriation of fund or investment back to home country), provided that all relevant applicable taxes are cleared. Such transactions (including the above foreign exchange operations) are undertaken only through authorised intermediaries, which are banks permanently established and licensed in Cambodia.

In case of foreign exchange crisis, the National Bank of Cambodia may implement appropriate regulations for a maximum period of three (3) months, including the imposition of certain temporary restrictions on the activities of authorised intermediaries, particularly on the foreign exchange operations above or their foreign exchange position or any loans in domestic currency extended to non-residents. In the event of prolonging the scheme, the National Bank of Cambodia and the Ministry of Economic and Finance will submit a request to the Head of the Royal Government for approval.

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6.10 Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years except in the current financial period, the Target Group has adopted SFRS(I) which is effective for annual financial periods beginning on or after 1 January 2018, including SFRS(I) 15 Revenue from Contracts with Customers and SFRS(I) 9 Financial Instruments.

The interim combined financial statements for the period ended 30 June 2018 are the first set of financial statements the Group has prepared that comply with SFRS(I), together with the relevant comparable period data for the year ended 31 December 2017 and six-month period ended 30 June 2017, as described in the summary of significant accounting policies. Except for SFRS(1) 15, the adoption of SFRS(I) and the other new standards have no impact on the financial statements on initial adoption. Please refer to the “Audited Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its subsidiaries with Independent Auditor’s Report for the Financial Years Ended 31 December 2015, 2016 and 2017” and the “Unaudited Interim Combined Financial Statements of Knit Textile and Apparel Pte. Ltd. and its subsidiaries with Independent Auditor’s Report for the Six-Month Period Ended 30 June 2018” as set out in Appendices C and E to this Circular respectively for details on the Target Group’s accounting policies. The impact on adoption of the new standards and summary of the reconciliation of historical financial information prepared in accordance with SFRS to SFRS(I) 1 as part of transitional relief can be found in Appendix D.

7. PROSPECTS, TREND INFORMATION, STRATEGY AND FUTURE PLANS

7.1 Prospects

This discussion contains forward-looking statements that involve risks and uncertainties. The actual results of the Target Group may differ significantly from those anticipated in the forward-looking statements. Factors that might cause the actual future results of the Target Group to differ significantly from those anticipated in the forward-looking statements include, but are not limited to, those described below and elsewhere in the Circular, particularly, in Section 16 entitled “Risk Factors” of the Circular. Under no circumstances should the inclusion of such forward-looking statements herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Target Group, the Financial Adviser and Sponsor or any other person. Shareholders are cautioned not to place undue reliance on these forward-looking statements which apply only as at the date of this Circular. Please refer to the section entitled “Cautionary Note Regarding Forward-Looking Statements” of the Circular for further details.

The New Directors believe that, barring any unforeseen circumstances, the prospects of the Target Group’s apparel business and the overall outlook for the next twelve (12) months from the Latest Practicable Date should be favourable based on the following observations:

Increase in sales in the niche market segments of apparels for seniors and plus sizes apparels

The Target Group specialises in the manufacturing of apparels for seniors as well as plus sizes apparels, particularly in the US. The Target Group’s major customers include Bluestem Brands, Inc. and Fullbeauty Brands, Inc., which are retailers in the US focused on apparels for seniors and plus sizes apparels respectively.

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According to the US Census Bureau, the absolute number of residents aged 65 and above has increased by approximately 45.4% from around 35.0 million in 2000 to around 50.9 million in 2017. At the same time, the percentage of residents aged 65 and above as a percentage of the total population has also increased from approximately 12.4% to approximately 15.6%. The increasingly ageing population in the US is largely driven by the baby boomer generation, who are referred to by the US Census Bureau as persons born between 1946 and 1964. Based on the projections of the US Census Bureau, the ageing population in the US is expected to continue to increase. See further Section 4.1.3 entitled “US” of this Target Letter. The Target Group expects this trend in the US to fuel greater demand for its apparels for seniors from both existing and new customers.

The Target Group also specialises in the niche area of plus sizes apparels. Based on statistics from the US Department of Health and Human Services, the percentage of Americans aged 20 and above who were overweight or obese had increased from approximately 56.0% during the period from 1998 to 1994, to approximately 69.5% during the period from 2011 to 2014. See further Section 4.1.3 entitled “US” of this Target Letter. The Target Group believes that, taking into account the proportion of overweight and obese Americans, the market for this segment in the US is underserved and demand will grow.

The Target Group believes that its specialisation and track record in the niche market segments of apparels for seniors and plus sizes apparels put it in an advantageous position to continue increasing its sales to existing customers as well as acquire potential new customers in these market segments.

Increase in Sales Orders from Existing and New Customers

Several of the Target Group’s existing customers have expressed intentions to streamline their number of suppliers, including Matalan Retail Limited and Bluestem Brands, Inc. These customers intend to focus on growing their business relations with a few major suppliers, and in particular, sizeable and reputable manufacturers with strong production and management capabilities that are able to meet their quality specifications and stringent requirements, including the Target Group. The Target Group believes that it has a good track record with its existing customers and is well-positioned to fulfil their increasing demands. As such, the Target Group expects to receive more sales orders from such customers in the current financial year, which will in turn improve the Target Group’s revenue and profitability.

Traditionally, many US apparel companies have sourced for manufacturers in the PRC due to lower labour costs. However, with the rise of economy in the PRC, employees’ wages and cost of operations are increasing steadily. Further, with the nation’s imposition of more stringent environmental regulations, there is an increasing trend of apparel companies shifting their manufacturing operations to other countries including Vietnam, Cambodia and Malaysia. Given that the Target Group’s manufacturing facilities are located in Cambodia and Malaysia, it expects to benefit from this trend and receive more sales orders from both existing and new US customers in the current financial year.

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Increase in Demand for Apparel Manufacturers with Quality Products and Value-Added, Integrated Services

The apparel manufacturing industry in Malaysia is expected to continue being one of the largest export earners for Malaysia in the current financial year. The Target Group believes that Malaysia remains a popular choice for the sourcing of apparel manufacturers, who are widely reputed as providers of high quality products as well as timely and reliable services.

There is also an increasing global demand for apparel manufacturers who are able to provide value-added and integrated services to customers. The Target Group is confident that more customers would be drawn towards working with the Target Group under its co-creation business model, where the Target Group is able to provide extensive technical advice and collaborate closely with its customers to enhance product designs and functionalities according to the customers' needs. Further, with its upstream expansion into the business of fabric knitting, dyeing, finishing and printing, the Target Group is well-positioned to meet the needs of customers who are seeking integrated services in relation to both the production of fabric and apparels.

7.2 Trend Information

This discussion contains forward-looking statements that involve risks and uncertainties. The actual results of the Target Group may differ significantly from those anticipated in the forward-looking statements. Factors that might cause the actual future results of the Target Group to differ significantly from those anticipated in the forward-looking statements include, but are not limited to, those described below and elsewhere in the Circular, particularly, in Section 16 entitled "Risk Factors" of the Circular. Under no circumstances should the inclusion of such forward-looking statements herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by the Target Group, the Financial Adviser and Sponsor, or any other person. Shareholders are cautioned not to place undue reliance on these forward-looking statements which apply only as at the date of this Circular. Please refer to the Section entitled "Cautionary Note Regarding Forward-Looking Statements" of the Circular for further details.

Based on the New Directors' knowledge of the industry and experience as well as the sales and operations of the Target Group, they have observed the following trends for FY2018:

- 7.2.1 The Target Group expects its revenue to increase mainly due to (a) expected increase in sales of apparels in tandem with larger production capacity of the existing manufacturing facilities achieved through a proposed addition of two (2) production lines in the Callisto Cambodia manufacturing facility; and (b) commencement of sales of fabrics to third party apparel manufacturers through its new operations at the New Fabric Dyeing Facility. The Callisto Cambodia manufacturing facility currently has nineteen (19) production lines in operation and can accommodate up to a total of twenty-one (21) production lines. After the proposed addition of two (2) production lines, the facility would have a total of twenty-one (21) production lines, which is within the facility's existing capacity limits.

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- 7.2.2 The Target Group expects the prices of its products to remain generally stable in FY2018 if it receives more sale orders from its existing customers, who have had business dealings with the Target Group for years and are not expected to raise new concerns in relation to the Target Group's general product pricing for any new orders.
- 7.2.3 The Target Group expects its profitability for FY2018 to be affected by the following:
- (a) The Target Group expects labour costs to rise in FY2018. This is due primarily to the minimum wage in Cambodia being increased from US\$153 in FY2017 to US\$170 in FY2018. The Target Group operates two (2) manufacturing facilities in Cambodia and has a total of 1,412 employees in Cambodia as at the Latest Practicable Date. As such, the Target Group expects to be affected by such increase in the minimum wage.
 - (b) The Target Group expects sub-contracting costs to rise in FY2018 as it continues to outsource part of the production process. This is due to insufficient production capacity to cope with the increase in sales to two (2) existing customers whose suppliers in Taiwan and Cambodia had ceased operations.
 - (c) The Target Group expects the costs of raw materials to rise in FY2018. The key raw materials use by the Target Group include fabric that is primarily made of cotton, polyester and acrylic, and accessories. Market prices of these raw materials are affected by the prices of crude oil and cotton. In this regard, the price of crude oil has risen from a low of under US\$30 per barrel in early 2016 to above US\$60 in early 2018, whereas the price of cotton has risen from around 75 cents per pound to around 80 cents per pound.⁽¹⁾
 - (d) The Target Group expects capital expenditure and operating expenses to rise in FY2018. This is due primarily to the construction of the New Fabric Dyeing Factory and the purchase of new equipment and machinery to be installed at the New Fabric Dyeing Factory, as well as increase in monthly instalment for repayment of borrowings as the tenure has been shortened from twenty (20) years to five (5) years.
 - (e) The Target Group expects its administrative expenses to increase mainly due to (i) expenses incurred in connection with the Proposed Acquisition; and (ii) compliance costs as a listed company.

Note:

- (1) Based on data in "Cotton Outlook" dated 23 February 2018, accessed on the United States Department of Agriculture website on 19 December 2018.

Save as discussed above and in Section 16 entitled "Risk Factors" of the Circular and barring any unforeseen circumstances, the New Directors are not aware of: (a) any significant recent trends in production, sales and inventory, and in the costs and selling prices of products and services since end of 1H2018, or (b) any other known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on net sales or revenues, profitability, liquidity or capital resources for at

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least FY2018, or that would cause financial information disclosed in this Circular to be not necessarily indicative of the future operating results or financial condition of the Target Group.

7.3 Order Book

The products of the Target Group are affected by fashion trends, market direction and customer preferences which are subject to changes from time to time. As such, as is common in the apparel industry, the Target Group does not enter into long-term agreements with its customers. Instead, purchases from customers are made on a purchase order basis. Accordingly, the concept of an order book is not meaningful.

7.4 Business Strategies and Future Plans

The Target Group has over the years established a strong reputation in the apparel manufacturing business. The New Directors are of the view that the Target Group is well-positioned to further advance its business and explore new opportunities in the future. The Target Group plans to grow its business by pursuing the following strategies:

7.4.1 Expansion upstream into the knitting, dyeing, finishing and printing of fabric

Introduction

The principal raw material used by the Target Group in its production process is fabric. The Target Group has, in the past, purchased its supply of fabric from third party suppliers.

The Target Group is currently in the course of expanding its apparel manufacturing operations upstream by undertaking fabric knitting, dyeing, finishing and printing.

The New Directors believe that, with an increase in demand for apparel manufacturers with integrated services, an integration into upstream domains along the value chain of the apparel business will give the Target Group additional competitive edge over its competitors. By producing its own fabrics, the Target Group also aims to have better control over its supply of raw materials and their quality to meet its production requirements.

The proposed expansion will be undertaken through OAE in Malaysia. OAE currently owns two (2) plots of land in Batu Pahat, Malaysia, with an aggregate land area of approximately 21,545 sq m for this purpose. See further Section 4.14 entitled “Properties and Fixed Assets” of this Target Letter.

Implementation in three (3) phases

The Target Group intends to implement its business expansion plan in three (3) phases:

- (a) The first phase involves the commencement of fabric dyeing and finishing operations. OAE is currently constructing the New Fabric Dyeing Facility on one of the two (2) plots of land it acquired. The New Fabric Dyeing Facility will be equipped with supporting infrastructure, including a wastewater treatment plant to carry out the post-treatment of wastewater that will be generated

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from the dyeing and finishing operations. Equipment and machinery for fabric dyeing and post-processing treatment activities will be installed at the New Fabric Dyeing Facility. The post-processing treatment will impart special functionalities into the fabrics, such as wicking, anti-microbial and tough cotton properties, which the Target Group believes are increasingly popular and in demand.

The Target Group expects that the construction of the New Fabric Dyeing Facility will be completed, and its fabric dyeing and finishing operations are expected to commence, towards the end of December 2018 or January 2019. The Target Group currently targets to achieve an initial dyeing and finishing capacity of around 100,000 kg per month. It is currently expected that the fabric dyed and finished at the New Fabric Dyeing Factory at this stage will be partially utilised for its in-house apparel production, while the remaining fabric will be supplied to third party apparel manufacturers. At the same time, the Target Group intends to kick-start its fabric knitting activities by purchasing a small number of knitting machines and achieving a knitting capacity of approximately 50,000 kg per month. The knitted fabric will similarly at this stage be solely utilised for the Target Group's in-house apparel production.

- (b) The second phase involves the installation of additional fabric dyeing and finishing equipment and machinery at the New Fabric Dyeing Facility. The Target Group targets to increase its dyeing and finishing capacity to around 150,000 kg per month by around December 2019. It is envisaged that, at this stage, the Target Group may increase the utilisation of its dyed and finished fabric for its in-house apparel production, while the remaining fabric will be supplied to third party apparel manufacturers.
- (c) The third phase of the Target Group's expansion plan involves increasing its fabric dyeing and finishing capacity to around 200,000 kg per month by around December 2020. It is envisaged that the Target Group may increase the utilisation of its dyed and finished fabric for in-house apparel production in future. At the same time, the Target Group intends to expand its operations to include fabric printing activities. The Target Group further expects to commence construction of the new fabric knitting factory sometime in 2022 on the second plot of land that OAE has acquired, and to commence its expanded fabric knitting operations sometime in 2024. Equipment and machinery for fabric knitting activities will be installed at the new fabric knitting factory. The Target Group currently targets to achieve an initial knitting capacity of around 100,000 kg per month at the new fabric knitting factory, and to increase its knitting capacity by 50,000 kg per month each year.

To stay competitive, the Target Group also intends to set up a chemical laboratory to conduct research into areas such as the development of new techniques and processes for knitting, dyeing and post-processing treatment, formulation and improvement of dye mixtures and the development of new value-added functionalities for fabrics.

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Total costs of expansion plan

The total cost for this expansion plan is currently estimated to be around RM32,000,000. The actual total cost of and/or the breakdown of such cost may vary due to, amongst others, changes in the costs of construction and equipment, and changes to the expansion plan.

This cost was partly funded through internal resources as well as a loan facility of RM14,500,000 from Malaysian Industrial Development Finance Berhad (“**MIDF**”) (“**MIDF Facility**”). There are covenants under the MIDF Facility which require KTM to seek MIDF’s prior written consent for, among other things, any change to its shareholders or undertaking any merger, consolidation or reorganisation. KTM had sought MIDF’s consent for the Restructuring Exercise, but MIDF had declined to give its consent. In order for the Restructuring Exercise and the Proposed Acquisition to proceed, OAE, a wholly-owned subsidiary of KTM, has accepted a letter of offer in respect of US\$3,700,000 (equivalent to around RM15,434,550 based on the exchange rate of US\$1: RM4.1715 as at the Latest Practicable Date) from Standard Chartered Bank Malaysia Berhad to refinance the MIDF Facility. OAE is in the process of implementing the refinancing, which is expected to be completed by the time of the EGM.

The New Directors do not foresee any event which may cause the completion of the refinancing to be delayed past the date of the EGM and the EGM will proceed regardless of whether the refinancing has been completed by the time of the EGM. However, as the Restructuring Exercise and the Proposed Acquisition can only take place after the refinancing is completed, Completion may be delayed if refinancing is not completed by the time of the EGM.

7.4.2 Continue to focus on its co-creation business model to improve growth and profitability

The Target Group considers its co-creation business model to be a key competitive strength that distinguishes it from other competitors in the global market. The Target Group intends to continue to leverage on its deep knowledge of fashion trends, market direction and consumer preferences, technical expertise and familiarity with fabric properties and construction, and significant experience in translating design concepts into successful products to serve its customers’ needs.

The Target Group also believes that the expansion of its business upstream into the knitting, dyeing, finishing and printing of fabric will enhance its co-creation business model by, among other things, bringing in-house, speeding up and rendering more efficient the process of technical development and prototyping of the fabric and prototyping of the product for manufacture of a particular apparel product.

The Target Group intends to undertake research and development activities, and use its enhanced capabilities to introduce new and improved apparel products both within as well as outside of its current focus on nightwear, loungewear, casual wear and plus sizes apparels. The ability to produce fabric with functionalities that it requires in-house will also provide the Target Group with more opportunities to expand the range of apparels which it can produce in the future.

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7.4.3 Increase sales from existing customers and develop new customers

In line with the Target Group's sales and marketing approach of fostering long-term and strong relationships with its existing customers, the Target Group will continue to focus on customer retention and increase sales to existing customers. In particular, the Target Group intends to step up sales and marketing efforts to those existing customers which became new major customers in FY2017, with a view to reducing reliance on its top three (3) major customers as at the end of FY2017. At the same time, the Target Group will also seek to develop new customers in order to diversify its customer base.

To this end, the Target Group intends to increase the frequency, intensity and depth of its interactions with its existing customers and also reach out to more potential customers. In order to be closer to and to better serve its existing and potential customers, the Target Group plans to set up sales and marketing offices initially in Hong Kong and eventually in other major cities such as New York.

Presently, most of the Target Group's customers are in the EU, US and Canada which are countries located in the Northern Hemisphere. As mentioned above in Section 4.21 entitled "Seasonality" of this Target Letter, the Target Group's sales are generally lower after the months of May to September, which is the period leading up to the major festive seasons and the winter holiday season in the EU, US and Canada. To optimise the production capacity and increase the utilisation rate of the Target Group's manufacturing facilities, the Target Group plans to expand its customer base to Australia, which is located in the Southern Hemisphere where the winter holiday season is in the months of June to August. This is strategic as the Target Group will then be able to increase its overall sales during its non-peak months of January to April leading up to the winter holiday season in Australia.

7.4.4 Improve operational efficiencies

The Target Group currently operates one (1) manufacturing facility in Malaysia and two (2) manufacturing facilities in Cambodia. In tandem with its plan to increase sales, the Target Group will explore ways to improve its production efficiencies and capabilities. This may be achieved through greater automation of its production process, upgrading existing equipment and machinery and/or purchasing and installing new equipment and machinery, and increasing production staff at its existing manufacturing facilities, to the extent of availability of space, for the production of apparels. The Target Group may also explore setting up new manufacturing facilities in countries with low production and labour costs, including Vietnam and Myanmar.

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8. SHARE CAPITAL

8.1 The Target

The Target was incorporated on 5 September 2017 under the Companies Act in Singapore as a private company limited by shares. As at the Latest Practicable Date, the issued and paid-up share capital of the Target is S\$2 comprising two (2) Target Shares, all of which are fully paid-up. None of the Target Shares is held by or on behalf of the Target Company or the Target Subsidiaries. The constitution of the Target does not provide a limit as to the duration of which the Target is to exist.

As at the Latest Practicable Date, there is only one (1) class of shares in the capital of the Target, being ordinary shares. All of the ordinary shares carry the same voting rights. The rights and privileges attached to the Target Shares are stated in the constitution of the Target.

As at the Latest Practicable Date, save as disclosed in Section 8.3 entitled “Shareholding Structure” of this Target Letter, the Target is not directly or indirectly owned or controlled, whether severally or jointly, by any person or government.

As at the Latest Practicable Date, save for the Proposed Acquisition, there is no other arrangement the operation of which may result in a change in control of the Target after Completion.

There has not been any public take-over offer by a third party in respect of any of the shares of the Target or by the Target in respect of the shares of another corporation or the units of a business trust, which has occurred between the beginning of FY2017, being the most recent completed financial year, and the Latest Practicable Date.

Except for the issue of two (2) Target Shares at the time of incorporation of the Target, there has been no change in the issued share capital of the Target during the period from its incorporation on 5 September 2017 to the Latest Practicable Date.

8.2 Target Subsidiaries

Save as disclosed below, there have been no changes to the issued share capital of the Target Subsidiaries in the period of three (3) years before the Latest Practicable Date:

KTH

Date of issue	No. of shares issued	Total consideration	Purpose of issue	Resultant number of issued and paid-up shares	Resultant issued and paid-up share capital
26 January 2018	1	RM1	Incorporation	1	RM1

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OAE

Date of issue	No. of shares issued	Total consideration	Purpose of issue	Resultant number of issued and paid-up shares	Resultant issued and paid-up share capital
28 February 2017	1,900,000	RM1,900,000	Capital injection	2,000,000	RM2,000,000

Callisto Singapore

Date of issue	No. of shares issued	Total consideration	Purpose of issue	Resultant number of issued and paid-up shares	Resultant issued and paid-up share capital
5 September 2017	2	S\$2	Incorporation	2	S\$2

Moon Singapore

Date of issue	No. of shares issued	Total consideration	Purpose of issue	Resultant number of issued and paid-up shares	Resultant issued and paid-up share capital
5 September 2017	2	S\$2	Incorporation	2	S\$2

Save as disclosed above, no shares in, or debentures of, the Target Group has been issued, or are proposed to be issued, as fully or partly paid for cash or for a consideration other than cash, within the three (3) years preceding the Latest Practicable Date.

Save pursuant to the Restructuring Exercise, no person has, or has the right to be given, an option to subscribe for or purchase any securities or securities-based derivative contracts of any company in the Target Group. There is no arrangement which involves the employees of the Target or the directors or employees of a subsidiary or an associated company of the Target in the capital of the Target, including any arrangement that involves the issue or grant of options or shares or any other securities or securities-based derivatives of the Target.

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8.3 Shareholding Structure

As at the Latest Practicable Date, the directors, the chief executive officer and Substantial Shareholders of the Target, together with their shareholdings in the Target, are as follows:

	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
Director and Substantial Shareholder				
Lim Siau Hing	2	100.0	–	–

Upon Completion, the Target will be a wholly-owned subsidiary of the Company and Mr Lim Siau Hing will no longer hold any shares directly in the Target.

The Target was incorporated by Mr Lim Siau Hing with an issued and paid-up share capital of S\$2.00 comprising two (2) Target Shares, both of which are held by Mr Lim Siau Hing. As part of the Restructuring Exercise, Mr Lim Siau Hing will be issued with further Target Shares. There was no significant change in the percentage of ownership of the Target Shares of the directors, chief executive officer and substantial shareholder during the period from incorporation of the Target on 5 September 2017 to the Latest Practicable Date. The Target Shares held by Mr Lim Siau Hing do not carry different voting rights from any other Target Shares.

9. DIRECTORS AND EXECUTIVE OFFICERS

9.1 Directors and Executive Officers

As at the Latest Practicable Date, Mr Lim Siau Hing is a director of the Target, KTH, KTM, OAE, Moon Singapore and Callisto Singapore, Mr Lim Vhe Kai is a director of KTM, OAE, Moon Cambodia, Callisto Cambodia and Xentika, Mr Chew Chong Kiat is a director of Moon Cambodia and Callisto Cambodia, Mr Tow Eng Lim is a director of Callisto Cambodia and Moon Cambodia and Mr Hong Kim Chea is the nominee director of the Target, Moon Singapore and Callisto Singapore. Mr Hong Kim Chea will be resigning as a director of the Target, Moon Singapore and Callisto Singapore.

As at the Latest Practicable Date, the senior management team of the Target Group comprises Mr Lim Siau Hing as the managing director, Mr Lim Vhe Kai as the marketing director, Mr Chew Chong Kiat as the group general manager, and Mr Low Yong Heng as the financial controller.

Upon Completion, Mr Lim Siau Hing will be appointed as Executive Chairman, Mr Lim Vhe Kai as Executive Director and CEO, Mr Chew Chong Kiat as New Executive Officer and COO, and Mr Low Yong Heng as Financial Controller, of the Company.

See further Section 13.2 entitled “New Directors” and Section 13.3 entitled “New Executive Officers” of the Circular for more information on the New Executive Directors and the New Executive Officers, including their business and working experience, areas of responsibility, educational and professional qualifications as well as past and present directorships.

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9.2 Arrangement or Understanding

None of the Target Group's directors and executive officers referred to above have any arrangement or understanding with any of the Target Group's Substantial Shareholders, customers, suppliers or any other person pursuant to which such person was appointed as a director or executive officer.

10. INTERESTED PERSON TRANSACTIONS AND POTENTIAL CONFLICT OF INTERESTS

10.1 Introduction

This Section sets out the material Interested Person Transactions entered into by the Target Group in FY2015, FY2016, and FY2017 and for the period from 1 January 2018 until the Latest Practicable Date.

In general, transactions between a company, its subsidiaries or associated companies (companies over which the company has control) and any of its Interested Persons (namely, its directors, CEO or Controlling Shareholders or the associates of such directors, CEO or Controlling Shareholders) are known as Interested Person Transactions under Chapter 9 of the Catalist Rules.

Upon Completion, the Target Group Companies will become subsidiaries of the Company. As such, transactions between the Target Group and any of the Company's Interested Persons (namely, the New Directors, the CEO or the Controlling Shareholders of the Company upon Completion or the associates of such New Directors, CEO or Controlling Shareholders) would be regarded as Interested Person Transactions under Chapter 9 of the Catalist Rules.

The New Directors have represented to the Directors and the Company that, save as disclosed below, and to the best of the knowledge and belief of the New Directors, neither the New Directors, the CEO nor the Controlling Shareholders of the Company upon Completion and/or their associates was or is interested, whether directly or indirectly, in any material transaction undertaken by the Target Group within FY2015, FY2016, and FY2017 and for the period from 1 January 2018 until the Latest Practicable Date.

In line with the rules set out in Chapter 9 of the Catalist Rules, a transaction that has a value of less than S\$100,000 is not considered material in the context of the Proposed Transactions and is not taken into account for the purposes of aggregation in this Section 10.

10.2 Interested Person Transactions

The following persons and companies are considered "Interested Persons" for the purposes of this Section 10:

Interested Person	Nature of Relationship
Lim Siau Hing	Upon Completion, Mr Lim Siau Hing will be the New Executive Chairman of the Company and Controlling Shareholder of the Company.

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Interested Person	Nature of Relationship
Lim Vhe Kai	Mr Lim Vhe Kai is the son of Mr Lim Siau Hing. Upon Completion, Mr Lim Vhe Kai will be a New Executive Director and CEO of the Company and a Controlling Shareholder of the Company.
Yew Cheng Ching	Ms Yew Cheng Ching is the wife of Mr Lim Vhe Kai.
Lim Sin Jet	Ms Lim Sin Jet is the daughter of Mr Lim Siau Hing and sister of Mr Lim Vhe Kai.
Vertical Delta Sdn Bhd (“Vertical Delta”)	An investment holding company incorporated in Malaysia of which Mr Lim Vhe Kai and his brother, Mr Lim Vhe Sian, are directors. Mr Lim Vhe Kai holds all of the issued shares in the capital of Vertical Delta.

10.2.1 Past Interested Person Transaction

Sale of property by KTM to Vertical Delta

Pursuant to a sale and purchase agreement dated 25 September 2017 between KTM and Vertical Delta, KTM agreed to sell to Vertical Delta a single-storey semi-detached house located at No. 21 Jalan Rekamas 3, Taman Rekamas III, 86200 Simpang Rengam, Johor, Malaysia for a purchase price of RM250,000. The transfer of the above property from KTM to Vertical Delta has been completed.

Based on a valuation of the above property conducted by an independent valuer engaged by KTM, the market value of the property was assessed to be RM250,000. The New Directors are of the view that the transaction was carried out on an arm's length basis as the property was sold at market price, was on normal commercial terms, and was not prejudicial to the Target Group.

10.2.2 Present and Ongoing Interested Person Transactions

(a) Lease of property from Ms Yew Cheng Ching to KTM

Pursuant to a tenancy agreement dated 1 August 2018 between KTM and Ms Yew Cheng Ching, Ms Yew Cheng Ching agreed to lease to KTM the ground floor of a double-storey shophouse located at No. 16A, Jalan Kencana 1A/26, Taman Pura, Kencana, 83300 Batu Pahat, Johor, Malaysia, for a period of one (1) year with an option to renew for a further one (1) year. The aggregate approximate floor area leased is 1,650 sq ft and the aggregated monthly rental is RM1,800.

The New Directors are of the view that the transaction was carried out on an arm's length basis as the rental for the said property was reasonable, on normal commercial terms, and was not prejudicial to the Target Group, after taking into account the rental rates of similar properties in the vicinity reflected on Malaysian property online portals.

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As the value of the transaction is below S\$100,000, the approval of Shareholders under Rule 906 of the Catalist Rules would not be required.

The Target Group expects the above lease to be renewed as long as KTM continues to require the premises for its operations. Any renewal of the above lease will be subject to the guidelines and review procedures as described in Section 10.4 entitled “Guidelines and Review Procedures for Future and Ongoing Interested Person Transactions” of this Target Letter. The Target Group confirms that it will not enter into similar transactions for other premises.

(b) Personal guarantees and other securities provided by Interested Persons to KTM

Mr Lim Siau Hing and Mr Lim Vhe Kai have provided, among other things, guarantees and security in favour of financial institutions to secure certain facilities granted by these financial institutions to KTM, as set out below:

Financial Institution	Nature/ Interested Person	Amount of facilities guaranteed or secured ('000)	Approximate amount outstanding as at the Latest Practicable Date ('000)	Largest amount outstanding during the Relevant Period ('000)
Malayan Banking Berhad	Guarantee by Mr Lim Vhe Kai	RM8,200	RM7,850	RM7,850
Maybank Islamic Berhad	Joint and several guarantee by Mr Lim Siau Hing and Mr Lim Vhe Kai	RM4,000	RM3,425	RM3,425
Standard Chartered Bank Malaysia Berhad	Joint and several guarantee by Mr Lim Siau Hing and Mr Lim Vhe Kai	RM16,000	RM13,758	RM15,648
Standard Chartered Bank Malaysia Berhad	Personal guarantee by Mr Lim Siau Hing and Mr Lim Vhe Kai	RM2,000	RM1,353	RM2,000
United Overseas Bank (Malaysia) Berhad	Joint and several guarantee by Mr Lim Siau Hing and Mr Lim Vhe Kai	RM27,483	RM19,265	RM20,660

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Financial Institution	Nature/ Interested Person	Amount of facilities guaranteed or secured ('000)	Approximate amount outstanding as at the Latest Practicable Date ('000)	Largest amount outstanding during the Relevant Period ('000)
United Overseas Bank (Malaysia) Berhad	Joint and several guarantee by Mr Lim Siau Hing and Mr Lim Vhe Kai	US\$1,131	US\$383	US\$692
Malaysian Industrial Development Finance Berhad	Joint and several guarantee by Mr Lim Siau Hing and Mr Lim Vhe Kai	RM14,500	RM13,722	RM14,500

As no compensation was paid by KTM to Mr Lim Siau Hing or Mr Lim Vhe Kai for the provision of the above guarantees, charge and letter of subordination, the New Directors are of the view that the guarantees, charge and letter of subordination were not provided on an arm's length basis and were not on normal commercial terms, but are not prejudicial to the interests of the Company and minority Shareholders.

As at the Latest Practicable Date, all of the above guarantees are still outstanding. Following Completion, KTM intends to request for the release and discharge of these personal guarantees by Mr Lim Siau Hing and/or Mr Lim Vhe Kai and replace them with corporate guarantees provided by the Company, subject to the consent of the relevant financial institutions. The Target Group does not expect any material changes to other terms and conditions of the facilities granted by the respective financial institutions. In the event that any of these financial institutions does not agree to release Mr Lim Siau Hing and/or Mr Lim Vhe Kai from the abovementioned guarantees and KTM is unable to secure alternative bank facilities on similar terms, Mr Lim Siau Hing and Mr Lim Vhe Kai will continue to provide the abovementioned guarantee, until such time when KTM is able to secure alternative facilities from other financial institutions. In such event, no fee, commission, interest or benefit-in-kind will be payable by our Group to Mr Lim Siau Hing or Mr Lim Vhe Kai for the provision of these guarantee.

Moving forward, KTM does not intend to enter into any further transactions of the above nature in the future.

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(c) *Sale and purchase of shares in the capital of KTM as part of the Restructuring Exercise*

As part of the Restructuring Exercise, Mr Lim Siau Hing, the Target and KTH entered into a sale and purchase agreement dated 7 November 2018 pursuant to which Mr Lim Siau Hing agreed to sell all of the issued shares in the capital of KTM to the Target (after he has purchased the issued shares in the capital of KTM currently held by Lim Vhe Kai so that he will become the sole shareholder of KTM) for an aggregate consideration of RM2.4 million.

The consideration was based on the issued and paid-up share capital of KTM and will be satisfied in full by the allotment and issue by the Target of a total of 2,400,000 Target Shares at RM1 each to Mr Lim Siau Hing. At the same time, KTH agreed to allot and issue a total of 2,400,000 ordinary shares in the capital of KTH at RM1 each to the Target.

It is anticipated that the above transactions will be completed after Shareholders have approved the Proposed Transactions at the EGM.

The New Directors are of the view that the above transaction was not carried out on an arm's length basis but was not prejudicial to the interests of the Company and minority Shareholders, as the consideration for the transfer of shares in KTM does not affect the Consideration under the Option Agreement, and the business of the Target Group is also being independently valued by the Business Valuer.

(d) *Sale and purchase of shares in the capital of Callisto Cambodia as part of the Restructuring Exercise*

As part of the Restructuring Exercise, Lim Vhe Kai, Chew Chong Kiat, Lim Sin Jet, Tow Eng Lim and Callisto Singapore entered into a sale and purchase agreement dated 6 February 2018 pursuant to which they agreed to sell an aggregate of 1,000 ordinary shares of US\$1,000 each in the capital of Callisto Cambodia, which constitutes 100% of the issued ordinary shares in the capital of Callisto Cambodia, to Callisto Singapore for an aggregate consideration of US\$1.0 million. The consideration was based on the issued and paid-up share capital of Callisto Cambodia.

Separately, Mr Lim Vhe Kai, Mr Chew Chong Kiat, Ms Lim Sin Jet and Mr Tow Eng Lim (who are holding the Callisto Cambodia shares as nominees of Mr Lim Siau Hing), Callisto Singapore, Mr Lim Siau Hing and the Target entered into a restructuring deed dated 7 November 2018 pursuant to which, among other things, Mr Lim Vhe Kai, Mr Chew Chong Kiat, Ms Lim Sin Jet and Mr Tow Eng Lim agreed that the consideration for the sale of all of the issued shares in the capital of Callisto Cambodia to Callisto Singapore pursuant to the sale and purchase agreement described above shall be satisfied in full by the allotment and issue by Callisto Singapore of a total of 1,000,000 Callisto Singapore shares at US\$1.00 each to the Target as nominee of Mr Lim Siau Hing. The Target agreed that, at the same time, it will allot and issue an aggregate of 1,000,000 Target Shares at US\$1.00 each to Mr Lim Siau Hing.

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It is anticipated that the above transactions will be completed after Shareholders have approved the Proposed Transactions at the EGM.

The New Directors are of the view that the above transaction is not being carried out on an arm's length basis but is not prejudicial to the interests of the Company and minority Shareholders, as the consideration for the transfer of shares in Callisto Cambodia does not affect the Consideration under the Option Agreement, and the business of the Target Group is also being independently valued by the Business Valuer.

(e) Sale and purchase of shares in the capital of Moon Cambodia as part of the Restructuring Exercise

As part of the Restructuring Exercise, Mr Lim Vhe Kai, Mr Chew Chong Kiat and Moon Singapore entered into a sale and purchase agreement dated 6 February 2018 pursuant to which they agreed to sell 1,000 ordinary shares of US\$2,000 each, which constitutes 100% of the issued ordinary shares in the capital of Moon Cambodia, to Moon Singapore for an aggregate consideration of US\$2.0 million. The consideration was based on the issued and paid-up share capital of Moon Cambodia.

Separately, Mr Lim Vhe Kai and Mr Chew Chong Kiat (who are holding the Moon Cambodia shares as nominees of Mr Lim Siau Hing), Moon Singapore, Mr Lim Siau Hing and the Target entered into a restructuring deed dated 7 November 2018 pursuant to which, among other things, Lim Vhe Kai and Chew Chong Kiat agreed that the consideration for the sale of all of the issued shares in the capital of Moon Cambodia to Moon Singapore pursuant to the sale and purchase agreement described above shall be satisfied in full by the allotment and issue of a total of 2,000,000 Moon Singapore shares at US\$1 each to the Target. The Target agreed that, at the same time, it will allot and issue an aggregate of 2,000,000 Target Shares at US\$1.00 each to Mr Lim Siau Hing.

It is anticipated that the above transactions will be completed after Shareholders have approved the Proposed Transactions at the EGM.

The New Directors are of the view that the above transaction is not being carried out on an arm's length basis but is not prejudicial to the interests of the Company and minority Shareholders, as the consideration for the transfer of shares in Moon Cambodia does not affect the Consideration under the Option Agreement, and the business of the Target Group is also being independently valued by the Business Valuer.

(f) Sale and purchase of shares in the capital of Xentika as part of the Restructuring Exercise

As part of the Restructuring Exercise, Mr Lim Vhe Kai and Ms Lim Sin Jet, who were holding ten (10) ordinary shares in the capital of Xentika as nominees on behalf of Mr Lim Siau Hing, the beneficial owner of the Xentika shares, transferred the Xentika shares to Mr Lim Siau Hing on 24 October 2018. The Target and Mr Lim Siau Hing entered into a sale and purchase agreement dated 7 November 2018 pursuant to which Mr Lim Siau Hing

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agreed to sell to the Target ten (10) issued shares in the capital of Xentika, which constitutes 100% of the issued shares in the capital of Xentika, for a total consideration of US\$10. The consideration was based on the issued and paid-up share capital of Xentika and will be satisfied in full by the allotment and issue of a total of ten (10) Target Shares at US\$1 each to Mr Lim Siau Hing.

It is anticipated that the above transactions will be completed after Shareholders have approved the Proposed Transactions at the EGM.

The New Directors are of the view that the above transaction is not being carried out on an arm's length basis but is not prejudicial to the interests of the Company and minority Shareholders, as the consideration for the transfer of shares in Xentika does not affect the Consideration under the Option Agreement, and the business of the Target Group is also being independently valued by the Business Valuer.

(g) Agreement relating to indebtedness from KTM to Mr Lim Siau Hing and Mr Lim Vhe Kai

As disclosed in Section 4.23.1 entitled "Target Group" of this Target Letter, Mr Lim Siau Hing, Mr Lim Vhe Kai, KTM and the Company have entered into an agreement dated 17 December 2018 in relation to the payment of an amount of RM8,701,000 owing from KTM to its current shareholders, Mr Lim Siau Hing and Mr Lim Vhe Kai, arising from dividends declared in respect of past financial years that have not been paid by KTM and advances made by them to KTM for working capital purposes. Please see Section 4.23.1 entitled "Target Group" of this Target Letter for more details.

The New Directors are of the view that the above agreement is not entered into on an arm's length basis, but the New Directors are of the view that the agreement is not prejudicial to the interests of the Company and minority Shareholders as the arrangement for part of the Amount Payable to be paid after Completion and to be subject to the satisfaction of the New Audit Committee that the payment will not adversely affect the ongoing working capital or liquidity requirements of the Enlarged Group is for the benefit of the Company.

(h) Vendor Undertaking

The Vendor has executed the Vendor Undertaking in favour of the Company pursuant to which the Vendor has provided to the Company an indemnity in relation to, among other things, the incident involving the tax and customs penalties imposed on Callisto Cambodia (as described in Section 14.7 entitled "Internal Controls" of the Circular), the non-compliance with Malaysian laws and regulations in connection with the Relevant KTM Land (as described in Section 4.14.1 entitled "Properties in Malaysia" of this Target Letter), potential non-compliance with transfer pricing and/or similar laws and regulations in Malaysia and non-compliances with Cambodian laws and regulations (as described in Section 4.16.1 entitled "Government

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Regulations” of this Target Letter). The obligations of the Vendor under the Vendor Undertaking are not subject to any cap as to quantum or any specific termination events.

The New Directors are of the view that the Vendor Undertaking is not entered into on an arm’s length basis but is not prejudicial to the interests of the Company and minority Shareholders, as the indemnities and undertakings provided by the Vendor are for the benefit of the Company.

10.3 Potential Conflict of Interests

In general, a conflict of interests arises when any of the New Directors, Controlling Shareholders or their associates (immediately after Completion) is carrying on or has any interest in any other corporation carrying on the same business as the Target Group.

Below is a summary of the potential conflict of interests involving the Target Group:

10.3.1 Potential Conflict of Interests in relation to Knit Textiles Industries Sdn. Bhd.

Following Completion, Mr Lim Siau Hing will become the Executive Chairman and Controlling Shareholder of the Company.

As at the Latest Practicable Date, Mr Lim Siau Hing is a director of Knit Textiles Industries Sdn. Bhd. (“**KTI**”) and currently holds approximately 43.5% of the issued shares in KTI. Mr Lim Siau Hing’s wife, Mrs Lim, is also a director of KTI and holds approximately 13.0% of the issued shares in KTI. The remaining director and shareholder of KTI is not related to, and is not an associate of, Mr Lim Siau Hing or Mrs Lim.

KTI was founded by Mr Lim Siau Hing, Mrs Lim and a business partner in December 1981 to operate a factory in Batu Pahat engaged in the knitting of fabric. Since sometime in 1986, KTI has ceased its fabric knitting activities and business operations, and continues to remain dormant after Mr Lim Siau Hing and Mrs Lim set up KTM in December 1988 up to the Latest Practicable Date. Mr Lim Siau Hing and Mrs Lim, who collectively control KTI, have no intention for KTI to conduct any business.

In view of the foregoing, the New Directors (other than Mr Lim Siau Hing and Mr Lim Vhe Kai) are of the view that KTI does not compete with the Target Group. Nevertheless, to avoid any perceived or potential conflict of interests in relation to KTI, Mr Lim Siau Hing, Mrs Lim and KTI have entered into a non-competition deed of undertaking dated 17 December 2018 with the Company, pursuant to which they confirmed and undertook with the Company as follows:

- (a) KTI is as at the date of the undertaking and has since sometime in 1986 been dormant, and does not carry on any business activities;
- (b) KTI shall not, and each of Mr Lim Siau Hing and Mrs Lim shall procure that KTI shall not, carry on any business activities;

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- (c) without prejudice to the foregoing, KTI shall not, and each of Mr Lim Siau Hing and Mrs Lim shall procure KTI not to, for the duration of the restricted period described below, solely or jointly with or on behalf of any other person, directly or indirectly, carry on or be engaged, concerned or interested (in any capacity whatsoever) in any business in Malaysia or elsewhere which is directly or indirectly in competition with or similar to the business of the Enlarged Group from time to time, including but not limited to the business of manufacture of textiles, fabric, garments and/or apparels and/or the knitting, dyeing, printing and/or finishing of fabric.

The restricted period referred to above means the period commencing on the date of the undertaking and ending on the earlier of (i) the date on which Mr Lim Siau Hing ceases to be a Director and Substantial Shareholder of the Company and a director of any other company in the Enlarged Group; and (ii) the date on which the Company ceases to be listed on the SGX-ST;

- (d) as at the date hereof, KTI has submitted an application for the striking off of KTI ("**Striking-off Application**") with the Companies Commission of Malaysia ("**CCM**"), and KTI shall, and Mr Lim and Mrs Lim shall procure that KTI shall, do all acts and things as may be necessary for the striking-off of KTI to be completed within two (2) years from the date of Completion; and
- (e) in the event that the Striking-Off Application is rejected by the CCM or the Striking-off Application has not been approved within the period of two (2) years referred to above, KTI, Mr Lim and Mrs Lim shall, and each of Mr Lim and Mrs Lim shall procure that KTI shall, do all acts and things as may be necessary to:
 - (i) change the principal business of KTI recorded with the CCM to a business that is unrelated to the business of the Enlarged Group from time to time, including but not limited to the business of manufacture of textiles, fabric, garments and/or apparels and/or the knitting, dyeing, printing and/or finishing of fabric; and
 - (ii) to change the name of KTI such that any and all references to "Knit Textiles" and/or any variations thereof shall be removed from KTI's name,

within one (1) month from the date of the notification of the rejection of the Striking-Off Application from the CCM or of the last day of the period of two (2) years referred to above.

10.3.2 Potential Conflict of Interests in relation to Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.)

Following Completion, Mr Lim Vhe Kai will become a New Executive Director and CEO of the Company, and Mr Chew Chong Kiat will become a New Executive Officer and COO of the Company.

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As at the Latest Practicable Date, Mr Lim Vhe Kai and Mr Chew Chong Kiat are directors of Haruaki Ventures Sdn. Bhd. (formerly known as Decent Garment Sdn. Bhd.) (“**Haruaki Ventures**”) and hold 80.0% and 20.0% of the total number of issued shares in the capital of Haruaki Ventures respectively. Haruaki Ventures was previously engaged in the wholesale and retailing of sports goods and apparels under the name of “Decent Garment Sdn. Bhd.”. Since September 2018, the company has ceased its business activities and operations, and continues to remain dormant up to the Latest Practicable Date. Mr Lim Vhe Kai and Mr Chew Chong Kiat have no intention for Haruaki Ventures to conduct any business. The name of the company has also been changed from “Decent Garment Sdn. Bhd.” to “Haruaki Ventures Sdn. Bhd.” with effect from 19 November 2018.

In view of the foregoing, the New Directors (other than Mr Lim Siau Hing and Lim Vhe Kai) are of the view that Haruaki Ventures does not compete with the Target Group. Nevertheless, to avoid any perceived or potential conflict of interests in relation to Haruaki Ventures, Mr Lim Vhe Kai, Mr Chew Chong Kiat and Haruaki Ventures have entered into a non-competition deed of undertaking dated 17 December 2018 with the Company, pursuant to which they confirmed and undertook with the Company as follows:

- (a) Haruaki Ventures is as at the date of the undertaking and has since September 2018 been dormant, and does not carry on any business activities;
- (b) Haruaki Ventures shall not, and each of Mr Lim Vhe Kai and Mr Chew Chong Kiat shall procure that Haruaki Ventures shall not, carry on any business activities;
- (c) without prejudice to the foregoing, Haruaki Ventures shall not, and each of Mr Lim Vhe Kai and Mr Chew Chong Kiat shall procure Haruaki Ventures not to, for the duration of the restricted period described below, solely or jointly with or on behalf of any other person, directly or indirectly, carry on or be engaged, concerned or interested (in any capacity whatsoever) in any business in Malaysia or elsewhere which is directly or indirectly in competition with or similar to the business of the Enlarged Group from time to time, including but not limited to the business of manufacture of textiles, fabric, garments and/or apparels and/or the knitting, dyeing, printing and/or finishing of fabric.

The restricted period referred to above means the period commencing on the date of the undertaking and ending on the earlier of (i) the last of the dates on which Mr Lim Vhe Kai ceases to be a Director and Substantial Shareholder of the Company and a director of any other company in the Enlarged Group, and on which Mr Chew Chong Kiat ceases to be an Executive Officer of the Company or a director of any other company in the Enlarged Group; and (ii) the date on which the Company ceases to be listed on the SGX-ST; and

- (d) each of Haruaki Ventures, Mr Lim Vhe Kai and Mr Chew Chong Kiat shall do and/or procure to be done all acts and things as may be necessary for the striking-off of Haruaki Ventures within two (2) years from the date of Completion.

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10.4 Guidelines and Review Procedures for Future and Ongoing Interested Person Transactions

From time to time upon Completion, the Enlarged Group may enter into Interested Person Transactions with any one or more of the Interested Persons. Any material transactions between the Enlarged Group and the Interested Persons will be subject to the guidelines set out below. This is to ensure that all future Interested Person Transactions will be carried out on an arm's length basis and on normal commercial terms which will not be prejudicial to the interests of the Company and its minority Shareholders.

10.4.1 Register of Interested Persons and Interested Person Transactions

The Enlarged Group will maintain a register of Interested Persons and Interested Person Transactions.

The register of Interested Persons will be updated regularly and disclosed to the relevant personnel to enable identification of Interested Persons. The register of Interested Persons will be reviewed by the New Audit Committee at least on a half yearly basis.

The register of Interested Person Transactions will record the basis on which Interested Person Transactions are entered into, including the quotations and other evidence obtained to support such basis, and the approval or review by the New Audit Committee, Financial Controller or any duly appointed director as the case may be.

This register of Interested Person Transactions will be reviewed by the New Audit Committee at least on a half yearly basis to ensure that the Interested Person Transactions, if any, are carried out on an arm's length basis and in accordance with the procedures outlined above. It will take into account all relevant non-quantitative factors.

10.4.2 Approval matrix

The Enlarged Group shall monitor all Interested Person Transactions it enters into and categorise these transactions as follows:

- (a) a Category 1 Interested Person Transaction is one where the value thereof is in excess of 3.0% of the NTA of the Enlarged Group, and
- (b) a Category 2 Interested Person Transaction is one where the value thereof is below or equal to 3.0% of the NTA of the Enlarged Group.

All Category 1 Interested Person Transactions must be approved by the New Audit Committee prior to entry whereas Category 2 Interested Person Transactions need not be approved by the Audit Committee prior to entry but will be reviewed on a half-yearly basis by the New Audit Committee.

In addition, before any agreement or arrangement that is not in the ordinary course of business of the Enlarged Group is transacted, prior approval must be obtained from the New Audit Committee. In the event a member of the New Audit Committee is interested in any of the Interested Person Transactions, he will abstain from

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reviewing that particular transaction. Any decision to proceed with such an agreement or arrangement will be recorded for review by the New Audit Committee.

10.4.3 Review by New Audit Committee

The Enlarged Group will prepare all the relevant information (such as pricing guidelines, pricing for similar existing customers and quotations obtained from third party suppliers) to assist the New Audit Committee in its review of all Interested Person Transactions.

During its periodic review or such other review deemed necessary by it, the New Audit Committee will carry out a review of records of all Interested Person Transactions to ensure that they are carried out in accordance with the following internal control procedures:

- (a) when purchasing any products or engaging any services from an Interested Person, two (2) other quotations from non-Interested Persons will be obtained for comparison to ensure that the interests of the Enlarged Group or its minority Shareholders are not disadvantaged. The purchase price or fee for the products or services shall not be higher than the most competitive price or fee of the two (2) other quotations from non-Interested Persons. In determining the most competitive price or fee, all pertinent factors, including but not limited to quality, requirements, specifications, delivery time and track record will be taken into consideration;
- (b) when selling any products or supplying any services to an Interested Person, the price or fee and terms of two (2) other successful transactions of a similar nature with non-Interested Persons will be used as comparison to ensure that the interests of the Enlarged Group or its minority Shareholders are not disadvantaged. The price or fee for the supply of products or services shall not be lower than the lowest price or fee of the two (2) other successful transactions with non-Interested Persons;
- (c) when renting properties from or to an Interested Person, appropriate steps will be taken to ensure that such rent is matched with prevailing market rates, including adopting measures such as making relevant enquiries with landlords of similar properties and obtaining suitable reports or reviews published by property agents (where necessary). The rent payable shall be based on the most competitive market rental rates of similar properties in terms of size and location, based on the results of the relevant enquiries; and
- (d) where it is not possible to compare against the terms of other transactions with unrelated third parties and given that the products and/or services may be purchased only from an Interested Person, the Interested Person Transaction will be approved by the New Directors, who have no interest in the transaction, in accordance with the Enlarged Group's usual business practices and policies. In determining the transaction price payable to the Interested Person for such products and/or services, factors such as, but not limited to, quantity, requirements and specifications will be taken into account.

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In respect of carrying out the above internal control procedures, the Audit Committee will take into account all relevant non-quantitative factors. Such review includes the examination of the transaction and its supporting documents or such other data deemed necessary by the New Audit Committee. The New Audit Committee shall, when it deems fit, have the right to require the appointment of independent sources, advisers or valuers to provide additional information pertaining to the transaction under review. In the event that a member of the New Audit Committee is interested in any such transaction, he will abstain from participating in the review and approval process in relation to that particular transaction.

Internal auditors will be appointed and their internal audit plan will incorporate a review of all the Interested Person Transactions at least on an annual basis. The internal audit report will be reviewed by the New Audit Committee to ascertain whether the guidelines and procedures established to monitor Interested Person Transactions have been complied with.

The New Audit Committee will also review from time to time such guidelines and procedures to determine if they are adequate and/or commercially practicable in ensuring that Interested Person Transactions are conducted on normal commercial terms, on an arm's length basis and do not prejudice the interests of the Enlarged Group and its Shareholders. Further, if during these periodic reviews by the New Audit Committee, the New Audit Committee is of the opinion that the guidelines and procedures as stated above are not sufficient to ensure that Interested Person Transactions will be on normal commercial terms, on an arm's length basis and not prejudicial to the interests of the Enlarged Group and its Shareholders, the New Audit Committee will adopt such new guidelines and review procedures for future Interested Person Transactions as may be appropriate.

10.4.4 Chapter 9 of the Catalist Rules

The Enlarged Group will also comply with the provisions in Chapter 9 of the Catalist Rules in respect of all future Interested Person Transactions, and if required under the Catalist Rules, the Enlarged Group will seek its Shareholders' approval (where necessary) for such transactions.

In accordance with Rule 919 of the Catalist Rules, Interested Persons and their associates shall abstain from voting on resolutions approving Interested Person Transactions involving themselves and the Enlarged Group. In addition, such Interested Persons will not act as proxies in relation to such resolutions unless specific instructions as to voting have been given by the Shareholder(s).

The New Board will ensure that all Interested Person Transactions will be subject to the disclosure requirements of the Catalist Rules, and will obtain Shareholders' approval if deemed necessary under the Catalist Rules. Disclosure will be made in the Company's annual report of the aggregate value of Interested Person Transactions during the relevant financial year under review and in the subsequent annual reports for the subsequent financial years of the Company.

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All of the New Independent Directors, who are members of the New Audit Committee, are of the view that the review procedures and systematic monitoring mechanism of all Interested Person Transactions as mentioned above, are adequate in ensuring that such transactions will be on normal commercial terms and will not be prejudicial to the interests of Shareholders in any way.

10.5 Interests of Proposed Directors, Controlling Shareholders and Their Associates

Save as disclosed above and in Section 17 entitled “Interested Person Transactions and Potential Conflict of Interests” of the Circular, in FY2015, FY2016, and FY2017 and for the period from 1 January 2018 until the Latest Practicable Date:

- 10.5.1 none of the New Directors, Controlling Shareholders of the Enlarged Group or any of their respective associates has any interest, direct or indirect, in any material transactions to which the Enlarged Group was or is a party,
- 10.5.2 none of the New Directors, Controlling Shareholders of the Enlarged Group or any of their respective associates has any interest, direct or indirect, in any entity carrying on the same business or dealing in similar products which competes materially and directly with the existing business of the Enlarged Group, and
- 10.5.3 none of the New Directors, Controlling Shareholders of the Enlarged Group or any of their respective associates has any interest, direct or indirect, in any enterprise or company that is the Enlarged Group’s customer or supplier of goods and services.

11. GENERAL AND STATUTORY INFORMATION

11.1 Material Contracts of the Target Group

Save as disclosed below, there were no material contracts, not being contracts entered into in the ordinary course of business of the Target Group, entered into by the Target Group within the two (2) years preceding the date of lodgement of this Circular that are or may be material:

- 11.1.1 the agreement relating to indebtedness dated 17 December 2018 executed by the Vendor, Lim Vhe Kai, KTM and the Company described under Section 4.23.1 entitled “Dividend Policy” of the Target Letter and Section 10.2.2 (g) entitled “Agreement relating to indebtedness from KTM to Mr Lim Siau Hing and Mr Lim Vhe Kai” of this Target Letter;
- 11.1.2 the sale and purchase agreement dated 7 November 2018 between Mr Lim Siau Hing, the Target and KTH in connection with the sale and purchase of an aggregate of 2,400,000 ordinary shares in the capital of KTM, which constituted 100% of the issued ordinary shares in the capital of KTM, entered into as part of the Restructuring Exercise;
- 11.1.3 the sale and purchase agreement dated 6 February 2018 between Lim Vhe Kai, Chew Chong Kiat, Lim Sin Jet, Tow Eng Lim and Callisto Singapore in connection with the sale and purchase of an aggregate of 1,000 ordinary shares of US\$1,000 each in the capital of Callisto Cambodia, which constituted 100% of the issued ordinary shares in the capital of Callisto Cambodia, entered into as part of the Restructuring Exercise;

APPENDIX A: LETTER TO SHAREHOLDERS FROM THE NEW DIRECTORS

- 11.1.4 the restructuring deed dated 7 November 2018 between Lim Vhe Kai, Chew Chong Kiat, Lim Sin Jet, Tow Eng Lim, Callisto Singapore, the Target and Mr Lim Siau Hing in connection with the sale and purchase referred to in Section 11.1.3 above, and the allotment and issue of 1,000,000 Target Shares to Mr Lim Siau Hing, entered into as part of the Restructuring Exercise;
- 11.1.5 the sale and purchase agreement dated 6 February 2018 between Lim Vhe Kai, Chew Chong Kiat and Moon Singapore in connection with the sale and purchase of an aggregate of 1,000 ordinary shares of US\$2,000 each in the capital of Moon Cambodia, which constituted 100% of the issued ordinary shares in the capital of Moon Cambodia, entered into as part of the Restructuring Exercise;
- 11.1.6 the restructuring deed dated 7 November 2018 between Lim Vhe Kai, Chew Chong Kiat, Moon Singapore, the Target and Mr Lim Siau Hing in connection with the sale and purchase referred to in Section 11.1.5 above, and the allotment and issue of 2,000,000 Target Shares to Mr Lim Siau Hing, entered into as part of the Restructuring Exercise;
- 11.1.7 the sale and purchase agreement dated 7 November 2018 between the Target and Mr Lim Siau Hing in connection with the sale and purchase of an aggregate of ten (10) ordinary shares in the capital of Xentika, which constituted 100% of the issued ordinary shares in the capital of Xentika, entered into as part of the Restructuring Exercise;
- 11.1.8 the sale and purchase agreement dated 25 September 2017 between Vertical Delta Sdn Bhd and KTM in connection with the sale and purchase of a single-storey semi-detached house located at No. 21 Jalan Rekamas 3, Taman Rekamas III, 86200 Simpang Rengam, Johor, Malaysia; and
- 11.1.9 the sale and purchase agreement dated 28 July 2017 between OAE and Mulia Raya Sdn Bhd in connection with the sale and purchase of HS(M) 2923 PTD 24912 Mukim Linau, Daerah Batu Pahat Johor, which was amalgamated from 5 lots of land, being PTD 5197 to PTD 5201 HS(M) 1874 to HS(M) 1878, Mukim Linau, Batu Pahat Johor.

11.2 Material Litigation of the Target Group

The Target Group had not engaged, in the last twelve (12) months before the date of the Circular, in any litigation or arbitration either as plaintiff or defendant which may have a material effect on its financial position or profitability, and the New Directors have no knowledge of any proceedings pending or known to be contemplated against the Target Group or any information likely to give rise to any litigation, claims or proceedings which may have a material effect on the financial position or the profitability of the Target Group.

APPENDIX A: LETTER TO SHAREHOLDERS FROM THE NEW DIRECTORS

12. NEW DIRECTORS' RESPONSIBILITY STATEMENT

The New Directors collectively and individually accept full responsibility for the accuracy of the information given in the Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, the Circular constitutes full and true disclosure of all material facts about the Proposed Transactions, the Target Group and the Enlarged Group (in so far as they relate to the Target Group), and the New Directors are not aware of any facts the omission of which would make any statement in the Circular misleading. Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the New Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

Yours faithfully,

The New Directors
For and on behalf of the Target Group

APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



21 December 2018

LERENO BIO-CHEM LTD.

80 Robinson Road
#02-00
Singapore 068898

Attention: The Recommending Directors
(in respect of the Proposed Whitewash Resolution)

Dear Sirs

LETTER FROM XANDAR CAPITAL PTE. LTD. TO THE RECOMMENDING DIRECTORS OF LERENO BIO-CHEM LTD. WHO ARE INDEPENDENT IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF KNIT TEXTILE AND APPAREL PTE. LTD. AS A REVERSE TAKEOVER TRANSACTION

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to Shareholders of Lereno Bio-Chem Ltd. (the "**Company**") dated 21 December 2018 (the "**Circular**").*

1. INTRODUCTION

On 29 September 2017 (the "**Announcement Date**"), the Company announced that it had, on 27 September 2017, entered into a conditional call and put option agreement (the "**Option Agreement**") with Mr Lim Siau Hing @ Lim Kim Hoe (the "**Vendor**") for the proposed acquisition of the entire issued and paid-up share capital (the "**Option Shares**") of Knit Textile and Apparel Pte. Ltd. (the "**Target**") for a consideration of S\$26.4 million (the "**Consideration**") which shall be fully satisfied by way of the allotment and issue of 132,000,000 new ordinary shares, credited as fully paid-up (the "**Consideration Shares**"), at the issue price of S\$0.20 (the "**Issue Price**") per Consolidated Share, upon the completion of the sale and purchase of the Option Shares (the "**Proposed Acquisition**"). The Vendor has directed the allotment and issue of 5,500,000 Consideration Shares (the "**Advisor Shares**") to Compass Consulting Pte. Ltd. (the "**Advisor**") as full and final settlement of fees for the services of the Advisor to the Vendor. Accordingly, the Vendor and his nominees shall be allotted and issued the balance 126,500,000 Consideration Shares (the "**Vendor Consideration Shares**") for the Proposed Acquisition.

In addition, the Vendor has agreed to pay on behalf of the Company all costs and expenses incurred and to be incurred by the Company, including all stamp duties payable in connection with the transfer of the Option Shares, and all professional fees of the professional advisers, including the Financial Adviser and Sponsor, the Business Valuer, the reporting accountants and the solicitors, acting for the Company to complete the transactions contemplated under the Option Agreement ("**Transaction Costs**"). The Transaction Costs shall, subject to

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APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



completion of the Proposed Acquisition ("**Completion**") occurring, be deemed to be an interest-free loan from the Vendor to the Company, and the Company will allot and issue 10,000,000 Consolidated Shares (the "**Transaction Costs Shares**") (equivalent to S\$2,000,000 based on the Issue Price) to the Vendor and/or his nominees in full and final settlement of the Transaction Costs. In the event that Completion does not occur for any reason whatsoever, the Vendor irrevocably and unconditionally waives repayment by the Company of the Transaction Costs or any part thereof.

As the Vendor and/or his nominees will acquire more than 30% of the Company's voting rights upon the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares, pursuant to Rule 14 of the Singapore Code on Take-overs and Mergers (the "**Code**"), the Vendor and the Family Trust Company will be required to make a general offer for all the remaining shares of the Company in issue (the "**Shares**") not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties, and at the highest price paid or agreed to be paid (as adjusted for the proposed consolidation of every twenty (20) existing Shares at a books closure date to be determined into one (1) consolidated share (the "**Proposed Share Consolidation**")) by the Vendor, the Family Trust Company and their concert parties for the Shares in the six (6) months preceding the date of the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares (the "**General Offer**"), unless such obligation is waived by the Securities Industry Council (the "**SIC**").

By way of a letter dated 19 December 2018, the SIC waived the requirement for the Vendor and the Family Trust Company to make a General Offer for the Company under Rule 14 of the Code following the acquisition of the Vendor Consideration Shares and Transaction Costs Shares by the Vendor, the Family Trust Company and their concert parties pursuant to the Proposed Acquisition, subject to subject certain conditions including, *inter alia*, a majority of holders of voting rights of the Company present and voting at a general meeting held before the issue of the Vendor Consideration Shares and Transaction Costs Shares, approve by way of a poll, a resolution to waive their rights to receive the General Offer from the Vendor, the Family Trust Company and their concert parties (the "**Proposed Whitewash Resolution**"), and the Company appoints an independent financial adviser ("**IFA**") to advise its independent shareholders (the "**Independent Shareholders**") on the Proposed Whitewash Resolution.

Xandar Capital Pte. Ltd. ("**Xandar Capital**") has been appointed as the IFA to advise on (i) whether the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable; and (ii) the recommendation to be made by the Recommending Directors (as defined below) to Shareholders in relation to the Proposed Whitewash Resolution.

As at the date of the Circular, the directors of the Company (the "**Directors**") who are considered independent for the purposes of making the recommendation to Independent Shareholders in relation to the Proposed Whitewash Resolution are Tan Sri Dato' Kamaruzzaman Bin Shariff, Mr Goh Yeow Tin, Mr Wong Heang Fine and Mr Yap Boh Pin (the "**Recommending Directors**").

This letter sets out our evaluation of the terms of the Proposed Acquisition and our recommendations to the Recommending Directors thereon (this "**IFA Letter**"). This IFA

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Letter is prepared for the Recommending Directors in connection with the Proposed Whitewash Resolution and forms part of the Circular issued by the Company in connection with, *inter alia*, the Proposed Acquisition and the Proposed Whitewash Resolution.

2. TERMS OF REFERENCE

Xandar Capital has been appointed as the IFA to advise the Recommending Directors on (i) whether the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable; and (ii) the recommendation to be made by the Recommending Directors to Shareholders in relation to the Proposed Whitewash Resolution.

We are not and were not involved in any aspect of the negotiations entered into by the Company or in the deliberations leading up to the decision of the Directors to, *inter alia*, undertake the Proposed Acquisition or to obtain the approval of Independent Shareholders for the Proposed Whitewash Resolution. Accordingly, we do not, by this IFA Letter, warrant the merits of the Proposed Acquisition or the Proposed Whitewash Resolution, other than to express (i) an opinion on whether the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable; and (ii) the recommendation to be made by the Recommending Directors to the Independent Shareholders in relation to the Proposed Whitewash Resolution.

We have not conducted a comprehensive review of the business, operations or financial condition of the Company. We have also not conducted a comprehensive review of the business, operations or financial condition of the Target and its subsidiaries (collectively, the "**Target Group**"). We have also not evaluated the strategic or commercial merits or risks of the Proposed Acquisition or the future growth prospects, financial position or earnings potential of the enlarged group comprising the Company and the Target Group (the "**Enlarged Group**") upon Completion. Accordingly, we do not express any view as to the prices at which the Consolidated Shares may trade upon Completion or on the future growth prospects, financial position and earnings potential of the Enlarged Group after Completion. We are also not addressing the relative merits of the Proposed Acquisition as compared to any alternative transaction previously considered by the Company or that may otherwise become available to the Company in the future. Such evaluation shall remain the sole responsibility of the Directors, although we may draw upon their views (to the extent deemed necessary or appropriate by us) in arriving at our opinion and recommendation.

In the course of our evaluation and for the purpose of our opinion in relation to the Proposed Acquisition and our recommendation in relation to the Proposed Whitewash Resolution, we have had discussions with the Directors, the management of the Company (the "**Management**"), the directors on the board of the Company following Completion (the "**New Directors**"), the directors of the Target (the "**Target Directors**"), and their respective professional advisers, and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management, the New Directors, the Target Directors and their respective professional advisers, including information contained in the Circular. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty,

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APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations. We have nevertheless made reasonable enquiries and used our judgment as we deemed necessary or appropriate in assessing such information and are not aware of any reason to doubt the accuracy or reliability of the information.

We have relied upon the assurance of the Directors that the Directors collectively and individually accept full responsibility for the accuracy of the information given in the Circular (save for information relating to the Vendor or the Target Group) and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, the Circular constitutes full and true disclosure of all material facts about the Company, the Proposed Acquisition and the Proposed Whitewash Resolution, and the Directors are not aware of any facts the omission of which would make any statement in the Circular misleading.

We have similarly relied upon the assurance of the Vendor and the New Directors that the Vendor and the New Directors collectively and individually accept full responsibility for the accuracy of the information given in the section entitled "Letter to Shareholders from the New Directors" of the Circular and any information in the Circular pertaining to the Vendor and the Target Group in connection with the Proposed Acquisition, and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, the Circular constitutes full and true disclosure of all material facts about the Vendor and the Target Group in connection with the Proposed Acquisition, and the Vendor and the New Directors are not aware of any facts the omission of which would make any statement in the Circular misleading.

Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors, the Vendor and the New Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

In relation to this IFA Letter, the Directors and the New Directors have confirmed that the facts relating to the Proposed Acquisition and the Proposed Whitewash Resolution as set out herein, are to the best of their knowledge and belief, fair and accurate in all material aspects.

We have not made any independent evaluation or appraisal of the assets or liabilities (including without limitation, real property) of the Target Group. However, the Company has commissioned Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Business Valuer**") to provide an independent opinion on the market value of the 100% equity interest in the Target Group as at 30 June 2018. The report from the Business Valuer dated 21 December 2018 (the "**Business Valuation Report**") is appended as Appendix G to the Circular. We are not involved in the preparation and assume no responsibility for the Business Valuation Report. We have not independently verified the information in the Business Valuation Report, and accordingly cannot and do not make any representation or warranty, expressed or implied, in respect of, and do not accept any responsibility for, the accuracy, completeness and adequacy of such information. We have nevertheless made enquiries and exercised our judgement as we deemed necessary and have found no reason to doubt the accuracy or reliability of the Business Valuation Report.

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Our opinion and recommendation are based upon prevailing market, economic, industry, monetary and other conditions (where applicable) and the information made available to us as of the Latest Practicable Date. We assume no responsibility to update, revise or reaffirm our opinion and recommendation in light of any subsequent development after the Latest Practicable Date that may affect our opinion and recommendation contained herein. Shareholders should further take note of any announcements relevant to their consideration of the Proposed Acquisition and the Proposed Whitewash Resolution which may be released by the Company after the Latest Practicable Date.

In arriving at our opinion and recommendation, we did not consider the specific investment objectives, financial situation, tax consequences, risk profile or unique needs and constraints of any Shareholder or any specific group of Shareholders. We recommend that any individual Shareholder or group of Shareholders who may require specific advice in relation to his or their investment objectives or portfolios should consult his or their legal, financial, tax or other professional advisers immediately.

The Company has been separately advised by its own advisors in the preparation of the Circular (other than this IFA Letter). We have no role or involvement and have not provided any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Circular (other than this IFA Letter). Accordingly, we take no responsibility for and express no views, express or implied, on the contents of the Circular (other than this IFA Letter).

Our opinion and recommendation are for the use and benefit of the Recommending Directors in their deliberation of the terms of the Proposed Acquisition and the Proposed Whitewash Resolution, and the recommendation made by the Recommending Directors to the Shareholders shall remain the responsibility of the Recommending Directors.

Our opinion in relation to the Proposed Acquisition and our recommendation in relation to the Proposed Whitewash Resolution should be considered in the context of the entirety of this IFA Letter and the Circular.

Whilst a copy of this IFA Letter may be reproduced in the Circular, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this IFA Letter (or any part thereof) for any other purposes other than the Proposed Acquisition and the Proposed Whitewash Resolution at any time and in any manner without our prior written consent in each specific case.

APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



3. THE PROPOSED ACQUISITION

3.1 THE OPTION SHARES

The subject of the Proposed Acquisition is the Option Shares which, as at the Latest Practicable Date, comprised two (2) ordinary shares representing the entire share capital of the Target.

3.2 THE CONSIDERATION AND THE NEW SHARES TO BE ALLOTTED AND ISSUED TO THE VENDOR AND/OR HIS NOMINEES

(a) The Consideration

The Consideration for the Proposed Acquisition upon exercise of the Call Option or Put Option is S\$26.4 million, subject to adjustments in accordance with the Option Agreement, which shall be satisfied by the allotment and issue of the Consideration Shares.

The Consideration was arrived at on a willing-buyer and willing-seller basis, after taking into account, among other things, the earnings of the Target Group.

(b) Adjustments to the Consideration

Under the Option Agreement, in the event that:

- (i) the valuation of the Target Group, based on the independent valuation report by a competent and independent valuer appointed pursuant to Rule 1015(3)(a) of the Catalist Rules, materially deviates either way from the Consideration; and/or
- (ii) any material issues and/or irregularities are uncovered in the course of due diligence which would or would reasonably be expected to cause the valuation of the Target Group to materially deviate on the downside from the Consideration, and which issues and/or irregularities are not rectified to the reasonable satisfaction of the Company,

the Company and the Vendor shall negotiate in good faith on reasonable adjustments (if any) to be made to: (i) the Consideration; and (ii) the number of Consideration Shares to be issued. Any such adjustments would be made on or prior to submission to the Singapore Exchange Securities Trading Limited (the "SGX-ST") of, among other things, the additional listing application and this Circular, failing which there shall be no adjustments and the Consideration shall remain at S\$26.4 million.

Based on the Business Valuation Report, the business valuation of the Target Group as at 30 June 2018 was S\$30.4 million. As the business valuation of the Target Group exceeds the Consideration, there will be no adjustment to the Consideration, which will remain as S\$26.4 million.

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(c) The Transaction Costs

The Vendor has agreed to pay the Transaction Costs and the Company will be allotting and issuing the Transaction Costs Shares to the Vendor and/or his nominees in full and final settlement of the Transaction Costs. As at the Latest Practicable Date, the total Transaction Costs in relation to the Proposed Acquisition (incurred and accrued) is estimated to be S\$2 million. The 10,000,000 Transaction Costs Shares was based on the Transaction Costs agreed between the Company and the Vendor of S\$2,000,000, divided by the Issue Price of \$0.20 per Consolidated Share. The Company has applied to the SGX-ST for the listing and quotation of 10,000,000 Transaction Costs Shares on Catalist (assuming the Proposed Share Consolidation has been completed).

(d) The new shares to be allotted and issued to the Vendor and/or his nominees

The Company will be allotting and issuing the following number of new ordinary shares, on a consolidated basis, to the Vendor and/or his nominees:

	After the Proposed Share Consolidation	As a percentage of the enlarged share capital ⁽¹⁾ of the Company
Consideration Shares	132,000,000 ⁽²⁾	77.79
Transaction Costs Shares	10,000,000	5.89
Total	142,000,000	83.69

Notes:

- (1) Based on the enlarged share capital of 169,681,592 Consolidated Shares upon the completion of the Proposed Transactions (as defined in the Circular).
- (2) Including the 5,500,000 Advisor Shares after the Proposed Share Consolidation.

The Consideration Shares (including the Advisor Shares) and the Transaction Costs Shares will be credited as fully paid-up and be allotted and issued free from any and all encumbrances and shall rank *pari passu* in all respects with the issued ordinary shares in the share capital of the Company as at the date of issuance, save for any rights, benefits, dividends and entitlements the record date for which is before the Completion Date.

3.3 THE ISSUE PRICE

The issue price of each Consideration Share is as follows:

Before the Proposed Share Consolidation S\$0.01 (the “**Pre-Conso Issue Price**”)

After the Proposed Share Consolidation S\$0.20 (the “**Issue Price**”)

APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



The volume weighted average price (“VWAP”) of Shares traded on 26 September 2017, being the last full market day immediately preceding the trading halt of the Shares on 27 September 2017, was S\$0.045 per Share. Accordingly, the Pre-Conso Issue Price of S\$0.01 represents a discount of approximately 77.78% to the VWAP of Shares traded on 26 September 2017.

The last full market day consolidated VWAP of the Shares, after taking into account the Proposed Share Consolidation, will be equivalent to S\$0.90. Accordingly, the Issue Price of S\$0.20 represents a discount of approximately 77.78% to the consolidated VWAP of Shares traded on 26 September 2017.

3.4 THE COMPANY

The Company has been a cash company since the completion of the disposal of Lereno Sdn. Bhd. on 17 August 2015. Since 17 August 2015 to the Announcement Date, the Company had entered into term sheets and/or agreements for three (3) other acquisitions which were terminated prior to the Proposed Acquisition.

(a) Financial performance of the Company

The Company's financial performance for the financial year ended 31 March 2017 (“FYE2017”), the nine months ended 31 December 2017 (“FP2017”) and the six months ended 30 June (“1H”) 2018 are set out below:

S\$'000	Audited FYE2017	Audited FP2017	Unaudited 1H2018
Income	10	66	2
(Loss) / Profit before tax	(740)	399	(200)
(Loss) / Profit for the year	(740)	399	(200)

The profit in FP2017 was due to the writing back of directors' fee of S\$600,000 in FP2017 as the Executive Directors waived their salaries since April 2016 and the Chief Financial Officer of the Company agreed to cease salary payments from September 2016 up till October 2017.

We also calculated the Company's financial performance for FY2017 to be as follows:

S\$'000	Three months ended 31 March 2017	Nine months ended 31 December 2017	Full year ended 31 December 2017
Income	(15)	66	51
(Loss) / Profit before tax	(99)	399	300
(Loss) / Profit for the year	(99)	399	300

APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



(b) Financial position of the Company

The Company's latest audited and unaudited financial position are as follows:

S\$'000	Audited as at 31 December 2017	Unaudited as at 30 November 2018
Current assets	46	44
Current liabilities	(5,886)	(6,229)
Net liabilities	(5,840)	(6,185)

We note that, since the inclusion of emphasis of matter by the auditors in the Company's annual report for the financial year ended 31 March 2011, the Company has obtained written continuing financial support from its major shareholder annually that the major shareholder will provide financial support as and when it may be required for the Company and its subsidiaries (the "**Group**") to meet its liabilities and its normal operating expenses to be incurred to enable the Group and the Company to continue as a going concern. As at the Latest Practicable Date, the financial support is provided by Bin Tai Holdings Private Limited (the single largest shareholder of the Company holding 24.74% interest in the Company as at the Latest Practicable Date).

Based on the Company's audited financial statements for the financial year ended 31 December 2017, the Amount Owing (which comprised (a) amounts owing to its substantial shareholder, Bin Tai and Mr Ong Choon Lui, an Executive Director; (b) accrual for unpaid directors' fees to non-executive directors; and (c) accrual for staff and other expenses of the Company, details of which are set out in Section 2.9.1 of the Circular) as at 31 December 2017 was around S\$5.88 million. As at the Latest Practicable Date, the Amount Owing amounted to around S\$6.22 million, out of which an aggregate amount of around S\$5.82 million was owing to Bin Tai and Mr Ong Choon Lui.

In connection with the Proposed Acquisition, upon Completion, the Company will allot and issue new ordinary shares at S\$0.20 for each new share, on a consolidated basis, subject to a cap of 24,000,000 new ordinary shares (the "**Settlement Shares**") which is equivalent to S\$4,800,000, as settlement of all Amount Owing. Please refer to Section 2.9.2 of the Circular for further information of the Settlement Shares.

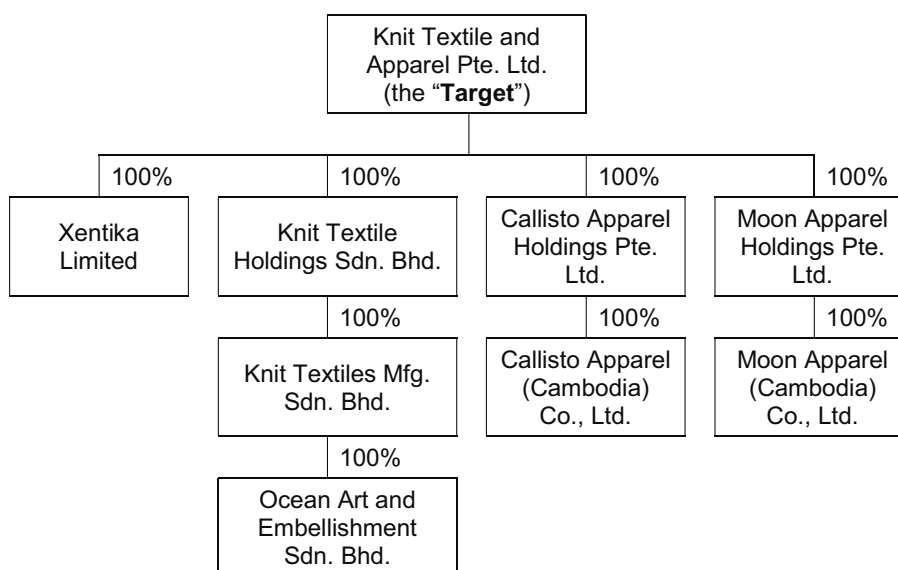
APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



3.5 THE TARGET GROUP

(a) Group structure

The Target Group shall comprise the following entities upon completion of the Restructuring Exercise:



The Target is a private company incorporated in Singapore and, as at the date of the Circular, has an issued and paid-up share capital of S\$2 comprising two (2) Option Shares, all of which are legally and beneficially owned by the Vendor.

The details of the subsidiaries of the Target can be found in Section 3.3 of Appendix A to the Circular.

The details of the Restructuring Exercise can be found in Section 3.1 of Appendix A to the Circular.

(b) The history of the Target Group

Knit Textile Mfg. Sdn. Bhd., the first entity in the Target Group, was established in 1988. Between 1988 and 2010, the Target Group's operations were focused in Malaysia. In 2011, the Target Group expanded its operations to Cambodia. As at the Latest Practicable Date, the Target Group operates three (3) manufacturing facilities, comprising one (1) facility in Batu Pahat, Malaysia, and two (2) facilities in Phnom Penh, Cambodia.

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(c) The business of the Target Group

The Target Group is engaged in the apparel contract manufacturing business, specialising in nightwear, lounge wear, casual wear and plus sizes for men, women and children. The apparels are exported primarily to customers which are retailers in Europe, US and Canada that sell apparel products under their own brand names. The Target Group's three (3) manufacturing facilities collectively operate a total of 35 production lines as at the Latest Practicable Date.

(d) The financial results of the Target Group

The following selected financial information should be read in conjunction with the full text of the Circular, in particular, Section 6 of Appendix A to the Circular entitled "Management's Discussion and Analysis of Results of Operations and Financial Position of the Target Group" as well as Appendices C and D to the Circular.

(i) Financial performance

A summary of the combined statements of comprehensive income of the Target Group for FY2015, FY2016, FY2017 and 1H2018 (collectively, the "Track Record Period") are set out below:

RM'000	FY2015	FY2016	FY2017	1H2018
Revenue	140,431	160,068	218,301	106,390
Gross profit	28,067	30,483	35,842	14,703
Profit before tax	9,553	10,956	12,707	2,373
Profit for the year/period	7,499	7,756	8,830	1,439

We also calculated the key financial margins of the Target Group for the Track Record Period as follows:

%	FY2015	FY2016	FY2017	1H2018
Gross profit margin	19.99	19.04	16.42	13.82
Profit before tax margin	6.80	6.84	5.82	2.23
Net profit margin	5.34	4.85	4.04	1.35

(ii) Financial position

A summary of the combined statements of financial position of the Target Group as at 31 December 2017 and 30 June 2018 is set out below:

RM'000	As at 31 December 2017	As at 30 June 2018
Current assets	95,634	126,310

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RM'000	As at 31 December 2017	As at 30 June 2018
Non-current assets	44,979	50,476
Total assets	140,613	176,786
Current liabilities	89,993	119,838
Non-current liabilities	11,234	16,629
Total liabilities	101,227	136,467
Total equity	39,386	40,319
Net current assets	5,641	6,472

Composition of the line items

The current assets of the Target Group comprised mainly inventories, trade and other receivables, as well as cash and short term deposits.

The non-current assets of the Target Group comprised property, plant and equipment, which comprised the following:

RM'000	As at 31 December 2017	As at 30 June 2018
Land and buildings	27,710	31,243
Plant and machinery and factory fittings	11,283	13,792
Office equipment, furniture and fittings, renovation and computer	3,602	3,399
Motor vehicles	1,325	1,103
Electrical installation	1,059	939
Total assets	44,979	50,476

(iii) Cash flows

A summary of the combined cash flow statements of the Target Group for FY2015, FY2016, FY2017 and 1H2018 are set out below:

RM'000	FY2015	FY2016	FY2017	1H2018
Net cash flows from / (used in) operating activities	11,560	11,092	(5,554)	(6,035)
Net cash flows used in investing activities	(2,402)	(3,358)	(16,105)	(7,400)

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RM'000	FY2015	FY2016	FY2017	1H2018
Net cash flows (used in) / from financing activities	(6,394)	(4,461)	17,712	16,327

(iv) Dividend history

The Target Group has declared the following dividends during the Track Record Period:

RM'000	FY2015	FY2016	FY2017	1H2018
Dividends declared	2,800	3,500	6,000	-

As at 30 June 2018, the Target Group had amounts due to directors/shareholders under current liabilities of RM8.70 million, out of which RM5.14 million relates to dividend payables arising from the dividends declared as set out in the table above.

3.6 THE RATIONALE FOR THE PROPOSED ACQUISITION

The rationale for the Proposed Acquisition is set out in Section 2.2 of the Circular, and Shareholders are advised to read the information carefully. We summarise the rationale as follows:

- (a) the Company has been a cash company since the completion of the disposal of Lereno Sdn. Bhd. on 17 August 2015. As at the Latest Practicable Date, the SGX-ST has granted the Company four extensions to complete an acquisition of assets to meet the requirements for a new listing. The latest extension is valid till 28 February 2019 and there is no assurance that the SGX-ST will grant any further extension of time if the Proposed Acquisition is not completed; and
- (b) the Target Group is an established corporation with experienced management and profitable track record.

3.7 CONDITIONS PRECEDENT TO THE PROPOSED ACQUISITION

The conditions precedent for the Proposed Acquisition are set out in Section 2.5.1 of the Circular, and Shareholders are advised to read the information carefully. We set out certain extracts in *italic* as follows:

“(a) ... *The completion of the Restructuring Exercise to the satisfaction of the Company, and the Restructuring Exercise being in compliance with applicable laws and the memorandum and articles of association ... of the Target Subsidiaries.*

(b) *Consents and Approvals.*

...

(iii) *A waiver being obtained from the SIC of the obligation by the Vendor and the Family Trust Company to make a mandatory general offer under the Code for*

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*all the Shares in issue not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties as a result of the allotment and issue of the Consideration Shares to the Vendor, the Family Trust Company (and/or their concert parties, if any) pursuant to the Proposed Acquisition, subject to any conditions that the SIC may impose and provided that such conditions are reasonably acceptable to the Vendor, the Family Trust Company and their concert parties ("**Whitewash Waiver**").*

- (iv) *The Company obtaining Shareholders' approval at the EGM for the Proposed Acquisition and the transactions in connection therewith, including but not limited to approval of the Proposed Whitewash Resolution and the resolutions relating to the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares, and the Share Consolidation, on the basis that the resolutions relating to the allotment and issue of the Consideration Shares (including the Advisor Shares), the Transaction Costs Shares and the Settlement Shares shall be inter-conditional.*

...

- (c) *Satisfactory Due Diligence.*

...

- (d) *No Material Adverse Change.*

...

- (e) *Opinion from Independent Financial Adviser.*

...

- (f) *Independent Valuation. The Company receiving an independent valuation report on the valuation of the Target Group from a competent and independent valuer, such report to comply with any relevant requirements of the Catalyst Rules.*

...

*If any of the Conditions is not fulfilled and not waived by mutual consent of the Vendor and the Company by the long stop date of 15 February 2018 (or such further date as the Company and the Vendor may agree in writing), the Option Agreement shall cease and determine and save for any antecedent breach of the Agreement, neither the Company nor the Vendor shall have any claim against the other party for damages, compensation or anything whatsoever. Pursuant to the SGX-ST granting further extension of time to 31 August 2018 and subsequently to 28 February 2019 for the Company to complete the Proposed Acquisition and meet the requirements for a new listing referred to in Section 2.2 of this Circular, the long stop date referred to above has been extended by mutual agreement of the Company and the Vendor to 28 February 2019 (or such further date as the Company and the Vendor may agree) ("**Long Stop Date**").*

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We note from Section 2.5.2 of the Circular that, save for conditions precedent referred to in Sections 2.5.1(a), 2.5.1(b)(i), (ii) and (iv) to (ix) of the Circular, all conditions precedent have been fulfilled as at the Latest Practicable Date.

4. THE PROPOSED WHITEWASH RESOLUTION

4.1 THE PROPOSED WHITEWASH RESOLUTION IN CONNECTION WITH THE PROPOSED ACQUISITION

As at the Latest Practicable Date, the Company has an issued and paid up share capital of 73,631,858 ordinary shares.

As set out in Section 10 of the Circular, the Company is expected to have an enlarged issued and paid up share capital of 169,681,592 Consolidated Shares upon the completion of the Proposed Transactions (as defined in the Circular).

The Vendor and his nominees will collectively hold 136,500,000 Consolidated Shares then, representing approximately 80.44% of the enlarged share capital of the Company.

Pursuant to Rule 14 of the Code, the Vendor and his nominees will be required to make a mandatory general offer for all the remaining issued Shares in the Company not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties (the “**General Offer**”) except where the SIC grants the Vendor a waiver of his obligation to make a mandatory general offer under Rule 14 of the Code.

The SIC had on 19 December 2018 waived the requirement for the Vendor and the Family Trust Company to make the General Offer for the Company under Rule 14 of the Code pursuant to the Proposed Acquisition, subject to the conditions set out in Section 3.3 of the Circular.

4.2 THE VENDOR

The Vendor is Mr Lim Siau Hing @ Lim Kim Hoe who is one of the founders of the Target Group and currently the Managing Director of the Target Group. Mr Lim has accumulated close to 50 years of experience in the textile and apparel industry, including technical and managerial experience and knowledge in the knitting and dyeing of fabric as well as manufacturing of apparels. Mr Lim will be the Executive Chairman of the Enlarged Group upon Completion.

An aggregate of 85,000,000 Vendor Consideration Shares (out of a total of 126,500,000 Vendor Consideration Shares) will, at the direction of the Vendor, be allotted and issued to Wyandotte Capital Limited, a family trust company (“**Family Trust Company**”) as the Vendor’s nominee. The Family Trust Company is incorporated in the British Virgin Islands as an investment holding company. All of the issued shares in the capital of the Family Trust Company are held by Lion Trust (Singapore) Limited, a Singapore trustee company (“**Family Trustee Company**”) for the benefit of the Lion Faulty Trust, a Singapore discretionary trust of the Vendor’s family (“**Family Trust**”).

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The Family Trustee Company will hold 100% of the issued shares in the capital of the Family Trust Company. The beneficiaries of the Family Trust are the Vendor and Mr Lim Vhe Kai. Both the Vendor and Mr Lim Vhe Kai will be appointed as directors of the Company after Completion. Mr Lim Siau Hing is the father of Mr Lim Vhe Kai.

The balance 41,500,000 Vendor Consideration Shares will be allotted and issued directly to the Vendor. The Vendor will also be allotted and issued 10,000,000 Transaction Costs Shares.

Further details about the Vendor and the Family Trust can be found in Section 2.4.3(a)(i) of the Circular and further details of the Vendor and Mr Lim Vhe Kai can be found in Section 13.2 of Appendix A to the Circular.

As at the Latest Practicable Date, the Vendor and his concert parties do not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of the Shares (except pursuant to the Option Agreement).

The Vendor's interests in the Company after the allotment and issue of the Consideration Shares, the Transaction Costs Shares and the Settlement Shares are set out below:

	Before Completion		After Completion	
	Number of Consolidated Shares	Percentage interest in the Company	Number of Consolidated Shares	Percentage interest in the Company ⁽²⁾
Family Trust Company ⁽¹⁾	-	-	85,000,000	50.09
The Vendor ⁽¹⁾	-	-	51,500,000	30.35

Notes:

- (1) An aggregate of 85,000,000 Vendor Consideration Shares (out of a total of 126,500,000 Vendor Consideration Shares) will, at the direction of the Vendor, be allotted and issued to the Family Trust Company as the Vendor's nominee. The Family Trustee Company holds all of the issued shares in the capital of the Family Trust Company in its capacity as trustee of the Family Trust, and will therefore be deemed to have an interest in the Vendor Consideration Shares held by the Family Trust Company. The Vendor and Mr Lim Vhe Kai are the beneficiaries of the Family Trust, will therefore be deemed to have an interest in the 85,000,000 Vendor Consideration Shares held by the Family Trust Company.
- (2) Based on the enlarged share capital of 169,681,592 Consolidated Shares after the allotment and issue of the Consideration Shares, the Transaction Costs Shares and the Settlement Shares.

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5. EVALUATION OF THE PROPOSED ACQUISITION AND THE PROPOSED WHITEWASH RESOLUTION

In our evaluation of the Proposed Acquisition and the Proposed Whitewash Resolution, we have taken into account the following factors which we consider to be pertinent and to have a significant bearing on our evaluation:

- (a) the rationale for the Proposed Acquisition;
- (b) the Business Valuation Report;
- (c) the Pre-Conso Issue Price;
- (d) the financials of the Target Group;
- (e) comparison of the Target Group with selected comparable companies;
- (f) comparison of the Proposed Acquisition with recent reverse take-over transactions;
- (g) the financial effects of the Proposed Transactions; and
- (h) other considerations.

These factors are discussed in greater detail in the ensuing paragraphs.

5.1 THE RATIONALE FOR THE PROPOSED ACQUISITION

The rationale for the Proposed Acquisition is set out in Section 2.2 of the Circular and paragraph 3.6 of this IFA Letter. We recommend that the Recommending Directors advise the Shareholders to read Section 2.2 of the Circular carefully.

The principal rationale for the Proposed Acquisition was because the Company became a cash company pursuant to Rule 1017 of the Catalist Rules in August 2015.

Cash Company Status

The Company has been deemed a “cash company” within the meaning of Rule 1017 of the Catalist Rules with effect from 17 August 2015.

Under Rule 1017(2) of the Catalist Rules, the SGX-ST will proceed to remove an issuer from the Official List if it is unable to meet the requirements for a new listing within 12 months from the date it becomes a cash company.

As at the Latest Practicable Date, the SGX-ST has granted the Company four extensions to complete an acquisition of assets to meet the requirements for a new listing. The latest extension is valid till 28 February 2019 and there is no assurance that the SGX-ST will grant any further extension of time if the Proposed Acquisition is not completed.

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If the Company is required to delist, a cash exit offer in accordance with Rule 1308 of the Catalist Rules shall be made to shareholders of the Company within six months. However, as set out in paragraph 3.4 of this IFA Letter, the Company had net liabilities position as at 30 November 2018. Accordingly, if the Company is required to be delisted, Shareholders are unlikely to receive any cash exit offer for their Shares.

5.2 THE BUSINESS VALUATION REPORT

The Company has commissioned the Business Valuer to provide an independent opinion on the market value of the 100% equity interest in the Target Group.

Based on the Business Valuation Report, the Business Valuer was of the opinion that the market value of a 100% equity interest in the Target Group was S\$30.4 million as at 30 June 2018 (the “**Target Group Valuation**”).

The Consideration of S\$26.4 million represents a discount of S\$4.0 million (or 13.2%) to the Target Group Valuation as at 30 June 2018 of S\$30.4 million as opined by the Business Valuer.

A copy of the Business Valuation Report can be found in Appendix G to the Circular. Shareholders are advised to read the Business Valuation Report carefully.

We wish to highlight that in the course of our evaluation, we have relied on the Business Valuation Report, and assumed the accuracy and completeness of information relating to the Target Group. We note that the Business Valuation Report has been prepared (i) with reference to the International Valuation Standards issued by the International Valuation Standards Council, and (ii) on a market value basis where market value is defined as “*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*”.

We have not conducted an independent valuation and have not independently verified such information or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not make any representation or warranty, expressed or implied, in respect of, and do not accept any responsibility for, the accuracy, completeness and adequacy of such information, representation and assurance. We have nevertheless made such enquiries and exercised our judgement as we deemed necessary and have found no reason to doubt the accuracy or reliability of the Business Valuation Report.

We highlight some of the matters considered by the Business Valuer as follows:

- (a) The Business Valuer has relied solely on the income approach in determining their opinion of value. We append below in *italics* extracts from the Business Valuation Report with respect to further details on the income approach adopted:

“In this study, the market value of the Valuation Subject was developed through the application of an income approach technique known as discounted cash flow method to devolve the future value of the business into a present value. This method

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eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the business.

Under this method, value depends on the present worth of future economic benefit to be derived from the projected income. Indications of value have been developed by discounting projected future net cash flows available for payment of shareholders' interest to their present worth at discount rate which in our opinion is appropriate for the risks of the business. In considering the appropriate discount rate to be applied, we have taken into account a number of factors including the current cost of finance and the considered risk inherent in the business."

- (b) The Business Valuer was of the opinion that (i) the cost approach was inappropriate for valuing the Target Group as it does not directly incorporate information about the economic benefits contributed by the Target Group, and (ii) the market approach was inappropriate as it requires market transactions comparable to the Target Group as an indication of value and the Business Valuer was not able to identify any current market transactions which were comparable to the Target Group.
- (c) In determining the Target Group Valuation, the Business Valuer have also made certain key assumptions, which *inter alia*, include but not limited to:
 - (i) *The projected business performances can be achieved with the effort of the Target Group;*
 - (ii) *The operational and contractual terms stipulated in the relevant contracts and agreements will be honored; and*
 - (iii) *The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge.*
- (d) The Business Valuer's opinion of value was calculated using cash flow projection based on the financial forecast of the Target Group. The financial forecast, which covers a 4.5-year period, was prepared by the management of the Target Group and provided to the Business Valuer. Cash flows beyond the 4.5-year period were extrapolated by the Business Valuer according to a constant terminal growth rate.

We recommend the Recommending Directors to advise the Independent Shareholders to read the Business Valuation Report carefully, in particular the terms of reference and key assumptions and critical factors.

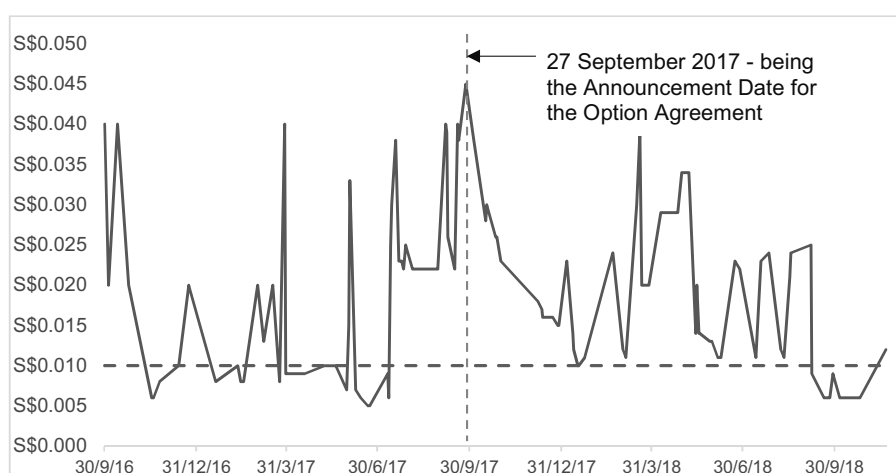
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5.3 THE PRE-CONSO ISSUE PRICE

(a) As compared with the market performance of the Shares

The historical price chart (based on closing prices and the number of Shares traded on a daily basis) for the Shares during the period commencing 28 September 2016 (12 months prior to the date of the Option Agreement) and ending on the Latest Practicable Date is set out below:



We also tabulated below the share price performance and trading volume of the Shares from 28 September 2016 up to the Latest Practicable Date:

	Highest price ⁽¹⁾ (S\$)	Lowest price ⁽¹⁾ (S\$)	VWAP ⁽²⁾ (S\$)	Premium/ (Discount) of Pre- Conso Issue Price to VWAP (%)	Average daily trading volume ⁽³⁾	Average daily trading volume as a percentage of free float ⁽⁴⁾ (%)
Prior to the date of the Option Agreement						
Last 12 months	0.045	0.005	0.01593	(37.2)	75,868	0.17
Last 6 months	0.045	0.005	0.01609	(37.9)	107,500	0.24
Last 3 months	0.045	0.005	0.01617	(38.2)	167,517	0.37
Last 1 month	0.045	0.022	0.03968	(74.8)	47,713	0.10

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	Highest price ⁽¹⁾ (S\$)	Lowest price ⁽¹⁾ (S\$)	VWAP ⁽²⁾ (S\$)	Premium/ (Discount) of Pre- Conso Issue Price to VWAP (%)	Average daily trading volume ⁽³⁾	Average daily trading volume as a percentage of free float ⁽⁴⁾ (%)
26 September 2017, being the last traded day prior to the date of the Option Agreement	0.045	0.045	0.04500	(77.8)	76,100	0.17
<u>From the Announcement Date to the Latest Practicable Date</u>						
From 29 September 2017 to the Latest Practicable Date	0.045	0.002	0.0176	(43.0)	20,211	0.04
On 20 November 2018, being the last trading date before the Latest Practicable Date	0.012	0.002	0.002	400.0	41,700	0.09

Source: Bloomberg L.P.

Notes:

- (1) The highest price refers to the highest trading price during the relevant period. The lowest price refers to the lowest trading price during the relevant period.
- (2) VWAP of the Shares over the relevant period.
- (3) The average daily trading volume of the Shares is computed based on the total volume of Shares traded during the relevant period, divided by the number of days on which the Shares were traded during the relevant period.
- (4) Free float refers to the Shares other than those directly and deemed held by the Directors and the substantial shareholders of the Company, which we have calculated to be 45,731,061 Shares, representing approximately 62.1% of the 73,631,858 total issued Shares as at the Latest Practicable Date.

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On the market prices of the Shares

We note that the Pre-Conso Issue Price of S\$0.01 for each Consideration Share:

- (i) is lower than the VWAPs for the periods prior to the date of Option Agreement;
- (ii) is also lower than the VWAPs for the periods after the Announcement Date (except on the Latest Practicable Date);
- (iii) Is higher than the VWAP on the Latest Practicable Date; and
- (iv) is higher than the lowest trading price of the Shares for the 12-month, 6-month and 3-month periods prior to the date of the Option Agreement and periods after the Announcement Date.

On the trading volume of the Shares

We note that, while 62.1% of the Shares were held by the public, the average daily trading volume of the Shares for the periods before and after the date of the Option Agreement had been below 0.5% of the Shares held by the public. This implies that there is little liquidity for the Shares and the market prices of the Shares may not be a good indicator for the fair value of the Shares given the illiquidity of the Shares.

(b) As compared with the net asset value ("NAV") of the Company

Based on the Company's latest announcement on its monthly valuation of assets dated 14 December 2018, the Company's assets and liabilities as at 30 November 2018 were as follows:

S\$	Unaudited 30 November 2018
Cash and bank balances	17,110
Other receivables, deposits and prepayments	27,135
Less:	
Other payables and accruals	(6,228,939)
Net liabilities	(6,184,694)

As set out above, the Company had net liabilities of S\$6.18 million as at 30 November 2018. This translate to a negative NAV per Share of S\$0.084 based on the total issued share capital of 73,631,858 Shares. The Pre-Conso Issue Price of S\$0.01 is hence at a premium to the negative NAV per Share of the Company.

As the Company no longer generates revenue following the disposal of its subsidiary in August 2015, the Company's net liabilities position will continue to deteriorate for as long as it remains a cash company. Hence, the Pre-Conso Issue Price will always be at a premium to the negative NAV per Share.

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5.4 THE FINANCIALS OF THE TARGET GROUP

The detailed financial analysis of the Target Group for the Track Record Period are set out in Section 6 entitled "Management's Discussion and Analysis of Results of Operations" in Appendix A to the Circular.

(a) The financial results

Based on the summary financials set out in paragraph 3.5(d)(i) of this IFA Letter, we note that:

- (i) the Target Group's revenue increased from RM140.43 million for FY2015 to RM218.30 million for FY2017 and its net profit also increased from RM7.50 million for FY2015 to RM8.83 million for FY2017. However, the Target Group's profit margins had deteriorated slightly from FY2015 to FY2017;
- (ii) the Target Group reported higher revenue of RM106.39 million for 1H2018 as compared to RM77.12 million for 1H2017. However, the Target Group had registered a higher percentage growth in its cost of sales from 1H2017 to 1H2018, and its selling and marketing expenses had doubled from RM1.58 million in 1H2017 to RM3.40 million in 1H2018. We note that the higher percentage growth in its cost of sales was because the Target Group had higher subcontracting costs due to insufficient production capacity. As a result, despite the higher revenue, the Target Group reported a lower profit after tax of RM1.44 million for 1H2018 as compared to RM2.14 million for 1H2017; and
- (iii) as a result of the lower profits for 1H2018 as compared to 1H2017, the Target Group's profit after tax for the last twelve (12) months ended 30 June 2018 ("**LTM2018**") amounted to RM8.13 million which was lower than the profit after tax of RM8.83 million for FY2017.

Based on the Consideration of S\$26.40 million (equivalent to RM80.29 million based on the closing exchange rate of RM1.00 to S\$0.3288 as at the Latest Practicable Date as extracted from Bloomberg):

- (1) the price-to-earnings ("**P/E**") ratio for Target Group is approximately 9.09 times based on the audited profit for the year of RM8.83 million for FY2017; and
- (2) the P/E ratio for Target Group is approximately 9.88 times based on the unaudited net profit of RM8.13 million for LTM2018.

(b) The financial position

The total assets of the Target Group amounted to approximately RM140.61 million as at 31 December 2017 and RM176.79 million as at 30 June 2018. It comprised

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mainly property, plant and equipment, inventories, as well as trade and other receivables.

The total liabilities of the Target Group amounted to approximately RM101.23 million as at 31 December 2017 and RM136.47 million as at 30 June 2018. It comprised mainly trade and other payables as well as borrowings.

Based on the summary financials set out in paragraph 3.5(d)(ii) of this IFA Letter:

- (i) we note that the Target Group had positive working capital as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 June 2018 respectively;
- (ii) we calculated that the Target Group had longer trade receivables' turnover days, trade payables' turnover days and inventories' turnover days for 1H2018 as compared to FY2017. However, we note that the Target Group has purchased trade credit insurance against any loss arising from the inability of certain specific major customers to make payment to the Target Group when due;
- (iii) we calculated that the Target Group had gearing ratio (based on total borrowings and total equity) of 1.66 times as at 30 June 2018 implying that the Target Group is relatively highly geared; and
- (iv) we note that, although the Target Group had recorded negative cash flows from its operating activities for FY2017 and 1H2018, the Target Group had maintained cash and short-term deposits of at least RM10.00 million as at 31 December 2017 and 30 June 2018 respectively.

We have had discussions with the Target Directors on the material assets and liabilities of the Target Group as at 31 December 2017 and 30 June 2018. The Target Directors confirm that:

- (A) no impairment or provision is necessary for the assets of the Target Group as at 31 December 2017 and 30 June 2018; and
- (B) no additional provisions or allowances is necessary for the liabilities of the Target Group as at 31 December 2017 and 30 June 2018.

Accordingly, based on the Consideration of S\$26.40 million (equivalent to RM80.29 million based on the closing exchange rate of RM1.00 to S\$0.3288 as at the Latest Practicable Date as extracted from Bloomberg):

- (1) the price-to-NAV ("**P/NAV**") ratio for Target Group is approximately 2.04 times based on the audited NAV of RM39.39 million as at 31 December 2017; and
- (2) the P/NAV ratio for Target Group is approximately 1.99 times based on the unaudited NAV of RM40.32 million as at 30 June 2018.

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As the Target Group does not have any intangible assets, the price-to-net tangible assets ("P/NTA") ratio of the Target Group is the same as its P/NAV ratio.

(c) Enterprise value and earnings before interest, tax, depreciation and amortisation

We calculate the enterprise value ("EV") and the earnings before interest, tax, depreciation and amortisation ("EBITDA") of the Target Group as follows:

EV	RM'm	EBITDA for LTM2018	RM'm
Consideration	80.29	Profit before taxation	11.92
		Less: Interest income	(0.36)
Add: Total debt as at 30 June 2018	67.06	Add: interest expenses	1.79
Less: Cash and cash equivalents as at 30 June 2018	(11.53)	Add: Depreciation	3.91
	<u>135.82</u>		<u>17.26</u>

Based on the EV and EBITDA set out above, the EV/EBITDA of the Target Group as implied by the Consideration is 7.87 times.

5.5 COMPARISON WITH SELECTED COMPARABLE COMPANIES

The Target Group is engaged in the apparel contract manufacturing business, specialising in nightwear, lounge wear, casual wear and plus sizes for men, women and children. We note that there is no direct listed comparable companies. Hence, reference is made to companies which are listed and traded on the regional exchanges, whose business activities and industries are largely comparable to that of the Target Group ("**Selected Comparable Companies**") to give an indication of the current market expectations with regards to the valuation of these businesses, implied by their respective closing market prices as at the Latest Practicable Date. For purpose of our evaluation, we have selected listed companies which reported profits of not more than S\$10 million for its latest published 12 months financial periods as broad proxies to the Target Group.

We wish to highlight that these Selected Comparable Companies are not directly comparable to the Target Group in terms of geographical presence, scale of operations, track record, future prospects, asset base, risk profile, customer base and other relevant criteria.

APPENDIX B: LETTER FROM THE IFA TO THE RECOMMENDING DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION



For the comparison with these Selected Comparable Companies, we have referred to the following widely applied valuation ratios to provide an indication of the market expectations with regard to the valuation of these companies:

Valuation Ratio	General Description
EV/EBITDA	<p>"EV" or "Enterprise Value" is defined as the sum of a company's market capitalisation, preferred equity, minority interests, short term and long term debts less its cash and cash equivalents. "EBITDA" stands for earnings before interest, tax, depreciation and amortisation but after share of associates' and joint ventures' income but excluding exceptional items.</p> <p>The "EV/EBITDA" multiple is an earnings-based valuation methodology that does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges. Therefore, it serves as an illustrative indicator of the current market valuation of the business of a company relative to its pre-tax operating cash flow and performance.</p>
P/E	<p>The P/E ratio illustrates the ratio of the market price of a company's share relative to its historical consolidated earnings per share. The P/E ratio is affected by, <i>inter alia</i>, the capital structure of a company, its tax position as well as its accounting policies relating to among others, depreciation and amortisation.</p>
P/NAV	<p>P/NAV ratio illustrates the ratio of the market price of a company's share relative to its asset backing as measured in terms of its historical consolidated NAV per share as stated in its financial statements. The NAV figure provides an estimate of the value of a company assuming the sale of all its tangible and intangible assets, the proceeds which are first used to settle its liabilities and obligations with the balance available for distribution to its shareholders. Comparisons of companies using their book NAVs are affected by differences in their respective accounting policies, in particular their depreciation and asset valuation policies.</p>

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We set out in the table below the list of Selected Comparable Companies which are listed on regional exchanges, together with a brief description of their principal activities which are considered broadly comparable to the Target Group:

Selected Comparable Companies	Listing location	Brief business description	Market capitalisation as at the Latest Practicable Date ⁽¹⁾ (\$ million)
EST Global Apparel Co., Ltd	Taipei	EST Global Apparel Co., Ltd manufactures apparels. The company designs, produces, and markets sports, loungewear, jackets, and other related clothes around the world.	16.7
Far East Knitting & Dyeing Industries Ltd	Bangladesh	Far East Knitting & Dyeing Industries Ltd, is an export-oriented garment manufacturing company. The company produces ready-made knit-wear and supplies apparel brands globally.	46.0
Forise International Ltd	Singapore	Forise International Ltd manufactures apparels. The company produces men's, women's, and children's apparel products in China.	9.4
NHA BE Garment Corporation Joint Stock Company	Vietnam	NHA BE Garment Corporation Joint Stock Company manufactures apparels. The company offers suits, shirts, trousers, t-shirts, pants, jeans, tie, skirts, shorts, party dresses, and accessories. The company provides export services and serves customers worldwide.	38.6

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Selected Comparable Companies	Listing location	Brief business description	Market capitalisation as at the Latest Practicable Date ⁽¹⁾ (S\$ million)
Pearl Global Industries Limited	India	Pearl Global Industries Limited is a multinational apparel company. The company manufactures, markets, distributes, and sources a wide range of apparel products.	56.3
ST International Holdings Company Limited	Hong Kong	ST International Holdings Company Limited operates as a textile products manufacturing company. The company provides functional thermo wear weft knit fabrics researching, production, marketing, and other services. ST International Holdings Company Limited markets its products worldwide.	21.0
Teo Guan Lee Corporation Berhad	Malaysia	Teo Guan Lee Corporation Berhad is an investment holding company. The company, through its subsidiaries, manufactures, wholesales, and retails apparel, sportswear, sports equipment, and related accessories.	12.6

Source: Bloomberg Finance L.P.

Note:

- (1) Market capitalisation of the Selected Comparable Companies are based on their respective closing prices as at the Latest Practicable Date.

The statistics of the Selected Comparable Companies are computed based on the last traded prices as at the Latest Practicable Date and their latest publicly available financial results as at the Latest Practicable Date.

Comparisons between the Target Group and the Selected Comparable Companies may be affected, *inter alia*, by differences in their accounting policies. Our analysis has not attempted to adjust for such differences.

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In view of the above, it should be noted that any comparison made with respect to the Selected Comparable Companies merely serves as an illustration and that the conclusions drawn from the comparisons may not necessarily reflect the perceived market valuation of the Target Group as at the Latest Practicable Date.

We set out in the table below the financial ratios of the Selected Comparable Companies:

Selected Comparable Companies	Net Profit ⁽¹⁾ (S\$m)	EV/ EBITDA ⁽²⁾⁽³⁾ (times)	P/E ⁽¹⁾ (times)	P/ NAV ⁽⁴⁾ (times)
EST Global Apparel Co., Ltd	1.6	9.9	10.5	2.2
Far East Knitting & Dyeing Industries Ltd	4.3	7.5	10.8	0.7
Forise International Ltd	0.9	4.6	10.2	1.0
NHA BE Garment Corporation Joint Stock Company	2.5	10.7	16.0	2.3
Pearl Global Industries Limited	5.0	7.1	12.2	0.7
ST International Holdings Company Limited	3.6	4.5	5.9	2.1
Teo Guan Lee Corporation Berhad	2.0	4.4	6.4	0.4
Maximum		10.7	16.0	2.3
Minimum		4.4	5.9	0.4
Mean		7.0	10.3	1.3
Median		7.1	10.5	1.0
Target Group ⁽⁵⁾	2.6	7.9	9.9	2.0
				0.9 ⁽⁶⁾

Source: Bloomberg Finance L.P., annual reports and/or announcements of the respective companies.

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Notes:

- (1) Based on the latest last twelve months revenue and net profits attributable to shareholders as announced by the respective companies (except ST International Holdings Company Limited which is based on its audited financials for the financial year ended 31 December 2017).
- (2) EV of the companies are based on their respective market capitalisations and latest announced balance sheet items as at the Latest Practicable Date (except ST International Holdings Company Limited which is based on its audited financials as at 31 December 2017).
- (3) Based on the latest last twelve months EBITDA of the respective companies (except ST International Holdings Company Limited which is based on its audited financials for the financial year ended 31 December 2017).
- (4) Based on the NAV for the latest balance sheet items as announced by the respective companies (except ST International Holdings Company Limited which is based on its audited financials as at 31 December 2017).
- (5) Based on the Consideration and the financial results of the Target Group for LTM2018.
- (6) Based on the Consideration and the Target Group Valuation as at 30 June 2018.

We note that ST International Holdings Company Limited was listed on the Hong Kong Stock Exchange in May 2018 with a market capitalisation of HK\$278.40 million (based on the final offer price of HK\$0.58 for each offer share), representing a P/E ratio of 13.7 times (over its audited net profits of HK\$20.25 million for the financial year ended 31 December 2017) and a P/NAV ratio of 4.9 times (over its audited net asset value of HK\$56.63 million as at 31 December 2017).

Based on the ratios set out in the above table, we note that:

- (a) the EV/EBITDA ratio of the Target Group, as implied by the Consideration and its results for LTM2018, is within the range but slightly higher the mean and median ratios of the Selected Comparable Companies;
- (b) the P/E ratio of the Target Group, as implied by the Consideration and its results for LTM2018, is within the range and slightly below the mean and median ratios of the Selected Comparable Companies;
- (c) the P/NAV ratio of the Target Group, as implied by the Consideration and its results for LTM2018, is within the range but higher than the mean and median ratios of the Selected Comparable Companies; and
- (d) the P/NAV ratio of the Target Group, as implied by the Consideration and the Target Group Valuation as at 30 June 2018, is within the range and below the mean and median ratios of the Selected Comparable Companies.

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5.6 COMPARISON WITH RECENT REVERSE TAKE-OVER TRANSACTIONS

For the purpose of our evaluation, we have also compared the valuation statistics implied by the Pre-Conso Issue Price vis-à-vis recent reverse take-over transactions that were completed by companies listed on the SGX-ST (the “Recent RTO Transactions”).

We wish to highlight that the list of companies involved in the Recent RTO Transactions as set out in the analysis below may not be directly comparable to the Company in terms of size, market capitalisation, business, listing status, asset composition, track record, accounting policy, future prospects and other relevant criteria. Each transaction must be judged on its own commercial and financial merits. In addition, the list of the Recent RTO Transactions is by no means exhaustive and information relating to the Recent RTO Transactions was compiled from publicly available information. Therefore, any comparison with the Recent RTO Transactions is for illustrative purpose only and merely serves as a guide to illustrate the relative *premia* or discounts for the transactions.

Company	Date of circular	Premium / (Discount) of issue price over/(to) last transacted price or VWAP prior to announcement (%)	Issue price over NTA per share (times)
United Fiber System Limited (now known as Golden Energy and Resources Limited)	30 January 2015	(38.7)	n.m ⁽¹⁾
Brooke Asia Limited (now known as China Star Food Group Limited)	26 June 2015	37.0	2.6
E2-Capital Holdings Limited (now known as Astaka Holdings Limited)	18 September 2015	25.8	12.6
LH Group Limited (now known as Pacific Star Development Limited)	30 December 2016	40.4	0.6
VGO Corporation Limited (now known as Hatten Land Limited)	29 December 2016	153.9	13.1
Terratech Group Limited (now known as Capital World Limited)	29 March 2017	37.3	4.9
Changjiang Fertilizer Holdings Limited (now known as Olive Tree Estates Limited)	15 November 2017	(72.2)	n.m ⁽¹⁾

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Company	Date of circular	Premium / (Discount) of issue price over/(to) last transacted price or VWAP prior to announcement (%)	Issue price over NTA per share (times)
SHC Capital Asia Limited (now known as Memories Group Limited)	20 November 2017	(67.6)	2.2
China Bearing (Singapore) Ltd (now known as Silkroad Nickel Ltd.)	31 May 2018	202.1	1.8
Maximum		202.1	13.1
Minimum		(72.2)	0.6
Mean		35.3	5.4 ⁽²⁾
Median		37.0	1.8 ⁽²⁾
The Company	21 December 2018	(77.8)	n.m. ⁽¹⁾

Source: Bloomberg Finance L.P., annual reports and/or announcements of the respective companies.

Notes:

- (1) "n.m." means not meaningful as the companies had net tangible liabilities position.
- (2) Excluding companies with net tangible liabilities position.

We note that in respect of the Recent RTO Transactions:

- (a) the discount of the Pre-Conso Issue Price to the last transacted price of the Shares prior to the Announcement Date of approximately 77.8% is below than the range of the Recent RTO Transactions; and
- (b) the issue prices of new ordinary shares of companies which had net tangible liabilities position (namely, United Fiber System Limited and Changjiang Fertilizer Holdings Limited) were at discount to their last transacted prices. The Company's Pre-Conso Issue Price is also at a discount to its last transacted price prior to the announcement of the Proposed Acquisition as the Company was also in a net tangible liabilities position.

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5.7 THE FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

The Company has set out the pro forma financial effects of the Proposed Transactions in Section 11 of the Circular.

In summary, the pro forma financial effects of the Proposed Transactions are as follows:

- (a) the net tangible liabilities per Consolidated Share of S\$1.58 (calculated based on a negative net tangible liabilities per Share of 7.93 cents before the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction) will improve to a NTA per Consolidated Share of 7.66 cents after the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction;
- (b) the earnings per Consolidated Share of 8.20 cents (calculated based on an earnings per Share of 0.4 cents before the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction) will decline to a loss per Consolidated Share of 5.03 cents after the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction. This was due to reverse acquisition accounting where a deemed consideration for the Company was calculated based on the share capital of the Company immediately before the Proposed Acquisition (which comprised the existing share capital and Settlement Shares) and the deemed consideration being expensed off the Target Group's financial statements; and
- (c) the negative gearing (before the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction) will increase to a gearing of 2.18 times after the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction. The pro forma gearing ratio is calculated based on the total debt of the Target Group (comprising total borrowings as well as trade and other payables) minus cash and bank balances.

5.8 OTHER CONSIDERATIONS

In our assessment of the Proposed Acquisition and the Proposed Whitewash Resolution, we have also considered the following:

(a) Implications of the Proposed Whitewash Resolution

By voting in favour of the Proposed Whitewash Resolution, the Independent Shareholders will be waiving their rights to receive the General Offer for all the Shares (or Consolidated Shares) which the Vendor and the Family Trust Company would otherwise be obliged to make at the highest price (as adjusted for the Proposed Share Consolidation) paid or agreed to be paid by the Vendor and his concert parties for the Shares (or Consolidated Shares) in the past six (6) months preceding the date of the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares, in accordance with Rule 14 of the Code.

The Independent Shareholders should note that the allotment and issue of the Consideration Shares will result in the Vendor and his concert parties holding Shares (or Consolidated Shares) carrying over 49% of the voting rights of the Company and

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that the Vendor and the Family Trust Company will thereafter be free to acquire further Shares without incurring any obligation under Rule 14 of the Code to make a general offer for the Company.

In addition, upon the completion of the Proposed Acquisition, the Vendor and his concert parties will own more than 50% of the Company's issued share capital and will be in a position to exercise statutory control of the Company. Statutory control will put the Vendor and the Family Trust Company in a position to be able to pass all ordinary resolutions on matters in which the Vendor and his concert parties do not have an interest and which are tabled for Shareholders' approval at a general meeting.

The Company may also be viewed less favourably in the context of interest from potential parties seeking control of the Company or who may have intentions to acquire a significant interest in the Company.

(b) Dilution impact of the allotment and issue of the Consideration Shares and the Transaction Costs Shares

As set out in Section 12.3 of the Circular, the shareholding interest of the existing public Shareholders will be diluted from approximately 62.11% as at the Latest Practicable Date to approximately 1.35% of the enlarged share capital of the Company following the allotment and issue of the Consideration Shares (including the Advisory Shares), the Transaction Costs Shares and the Settlement Shares but before the Bin Tai Placement.

(c) Moratorium of Consolidated Shares

The following Shareholders will be observing a moratorium over the Consolidated Shares held by them:

Names	Number of Consolidated Shares / As a percentage of the enlarged share capital after allotment and issue of Consolidated Shares	Period
Family Trust Company	85,000,000 / 50.09%	Six (6) months commencing from the date of allotment and issue of the new Consolidated Shares to the Family Trust Company. A further period of six (6) months thereafter for 50.0% of the Shares.

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Names	Number of Consolidated Shares / As a percentage of the enlarged share capital after allotment and issue of Consolidated Shares	Period
The Vendor	51,500,000 / 30.35%	Six (6) months commencing from the date of allotment and issue of the new Consolidated Shares to the Vendor. A further period of six (6) months thereafter for 50.0% of the Shares.
Total	136,500,000 / 80.44%	

(d) The Settlement Shares

We note that the Company will be allotting and issuing the Settlement Shares to Bin Tai as settlement of the Amount Owing at S\$0.20 for each Settlement Share. The Issue Price is the same as the issue price of the Settlement Shares.

(e) Inter-conditionality

Shareholders should note that the passing of Ordinary Resolutions 1, 2, 3, 4, 5, 6, 7 and 8 and Special Resolution 2 (collectively “**Inter-conditional Resolutions**”) as set out in the Notice of EGM are inter-conditional. This means that if any one (1) of these Inter-conditional Resolutions is not approved, the other Inter-conditional Resolutions would not be passed.

Shareholders should also note that Ordinary Resolutions 9, 10, 11 and 12 and Special Resolutions 1 and 3 as set out in the Notice of EGM are conditional upon the Inter-conditional Resolutions being approved. If any of the Inter-conditional Resolutions is not approved, Ordinary Resolutions 9, 10, 11 and 12 and Special Resolutions 1 and 3 would not be passed.

(f) Risk factors

Upon completion of the Proposed Acquisition, the risk factors relating to the Target Group will be relevant to the Enlarged Group. Shareholders are advised to read the information in Section 16 entitled “Risk Factors” of the Circular carefully.

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6. OUR OPINION

Having regard to our terms of reference, in arriving at our opinion, we have taken into account a range of factors which we consider to be pertinent and have a significant bearing on our assessment of the Proposed Acquisition and the Proposed Whitewash Resolution. A summary of the key factors we have taken into our consideration is set out below:

- (a) the Company has been deemed a “cash company” within the meaning of Rule 1017 of the Catalist Rules with effect from 17 August 2015,
 - (i) there is no assurance that the SGX-ST will grant any further extension of time if the Proposed Acquisition is not completed;
 - (ii) the Company had net liabilities position as at 30 November 2018. Accordingly, if the Company is required to be delisted, Shareholders are unlikely to receive any cash exit offer for their Shares;
- (b) the Consideration of S\$26.4 million represents a discount of S\$4.0 million (or 13.2%) to the Target Group Valuation as at 30 June 2018 of S\$30.4 million as opined by the Business Valuer;
- (c) while the Pre-Conso Issue Price of S\$0.01 is lower than the VWAPs for the periods prior to and after the Announcement Date (except on the Latest Practicable Date), the VWAP may not be a good indicator of the fair value of the Shares given that there is little liquidity for the Shares despite the high percentage of free float. Nevertheless, the Pre-Conso Issue Price of S\$0.01 represents a premium when compared to the net liabilities of the Company as at 30 November 2018;
- (d) the EV/EBITDA ratio of the Target Group is within the range but slightly higher than the mean and median ratios of the Selected Comparable Companies;
- (e) the P/E ratio is within the range and below the mean and median ratios of the Selected Comparable Companies;
- (f) the P/NAV ratio of the Target Group, as implied by the Consideration and its results for LTM2018, is within the range but higher than the mean and median ratios of the Selected Comparable Companies;
- (g) the P/NAV ratio of the Target Group, as implied by the Consideration and the Target Group Valuation as at 30 June 2018, is within the range and below the mean and median ratios of the Selected Comparable Companies;
- (h) when comparing against the Recent RTO Transactions, the Company's Pre-Conso Issue Price is at a discount to its last transacted price prior to the announcement of the Proposed Acquisition which is similar to companies which had net tangible liabilities position (namely, United Fiber System Limited and Changjiang Fertilizer Holdings Limited) at the time of announcement of the Recent RTO Transactions;

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- (i) based on the pro forma financial effects, (i) the net tangible liabilities per Consolidated Share position will improve to a NTA per Consolidated Share of 7.66 Singapore cents after the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction, (ii) the earnings per Consolidated Share will decline to a loss per Consolidated Share after the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction due to reverse acquisition accounting, and (iii) the Company's pro forma gearing ratio is higher after the Proposed Share Consolidation, Proposed Acquisition and Proposed Capital Reduction; and
- (j) other considerations as set out in paragraph 5.8 of this IFA Letter.

Accordingly, after taking into account the above factors, we are of the opinion as of the date hereof that, on balance, the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable.

We therefore advise the Recommending Directors to recommend to Independent Shareholders to vote in favour of the Proposed Whitewash Resolution.

This IFA Letter is addressed to the Recommending Directors for their benefit, in connection with and for the purpose of their consideration of the terms of the Proposed Acquisition and the Proposed Whitewash Resolution. Any decision made by the Recommending Directors in relation to the Proposed Acquisition and the Proposed Whitewash Resolution shall remain the responsibility of the Recommending Directors. Whilst a copy of this IFA Letter may be reproduced in the Circular, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this IFA Letter (or any part thereof) for any other purpose other than the Proposed Acquisition and the Proposed Whitewash Resolution, at any time and in any manner without the prior written consent of Xandar Capital in each specific case.

This opinion and recommendation is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
XANDAR CAPITAL PTE. LTD.

LOO CHIN KEONG
EXECUTIVE DIRECTOR

PAULINE SIM POI LIN
HEAD OF CORPORATE FINANCE

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**APPENDIX C: AUDITED COMBINED FINANCIAL STATEMENTS OF KNIT
TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE FINANCIAL YEARS ENDED
31 DECEMBER 2015, 2016 AND 2017**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Independent auditor's report on combined financial statements
For the financial years ended 31 December 2015, 2016 and 2017**

21 December 2018

The Board of Directors
50 Raffles Place
#06-00 Singapore Land Tower
Singapore 048623

Report on the Combined Financial Statements

Opinion

We have audited the combined financial statements of Knit Textile and Apparel Pte. Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the combined statements of financial position as at 31 December 2015, 2016 and 2017, and the combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements for each of the financial years ended 31 December 2015, 2016 and 2017, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements of the Group are properly drawn up in accordance with the Financial Reporting Standards in Singapore ("FRSs") so as to present fairly, in all material respects, the combined financial position of the Group as at 31 December 2015, 2016 and 2017, and of the combined financial performance, combined changes in equity and combined cash flows of the Group for each of the financial years ended 31 December 2015, 2016 and 2017.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Group in accordance with the *Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**APPENDIX C: AUDITED COMBINED FINANCIAL STATEMENTS OF KNIT
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31 DECEMBER 2015, 2016 AND 2017**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Independent auditor's report on combined financial statements
For the financial years ended 31 December 2015, 2016 and 2017**

Responsibilities of Management and Directors for the Combined Financial Statements

Management is responsible for the preparation of combined financial statements that give a true and fair view in accordance with FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**APPENDIX C: AUDITED COMBINED FINANCIAL STATEMENTS OF KNIT
TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE FINANCIAL YEARS ENDED
31 DECEMBER 2015, 2016 AND 2017**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Independent auditor's report on combined financial statements
For the financial years ended 31 December 2015, 2016 and 2017**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Restriction on Distribution and Use

This report has been prepared solely for inclusion in the circular to the shareholders of Lereno Bio-Chem Ltd. to be issued in connection with the proposed acquisition of the entire issued and paid up share capital of the Company.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

Partner in charge: Adrian Koh

**APPENDIX C: AUDITED COMBINED FINANCIAL STATEMENTS OF KNIT
TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE FINANCIAL YEARS ENDED
31 DECEMBER 2015, 2016 AND 2017**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

Combined statements of comprehensive income

For the financial years ended 31 December 2015, 2016 and 2017

	Note	2017 RM'000	2016 RM'000	2015 RM'000
Revenue	4	218,301	160,068	140,431
Cost of sales		(182,459)	(129,585)	(112,364)
Gross profit		35,842	30,483	28,067
Other items of income				
Interest income from loans and receivables		251	244	234
Other income	5	1,492	573	489
Other items of expense				
Administrative and general expenses		(16,084)	(11,940)	(10,616)
Selling and marketing expenses		(7,272)	(7,201)	(7,112)
Finance costs	6	(1,522)	(1,203)	(1,509)
Profit before tax	8	12,707	10,956	9,553
Income tax expense	9	(3,877)	(3,200)	(2,054)
Profit for the year		8,830	7,756	7,499
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Foreign currency translation		(1,222)	638	2,021
Total comprehensive income for the year		7,608	8,394	9,520

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Combined statements of financial position
As at 31 December 2015, 2016 and 2017**

	Note	2017 RM'000	2016 RM'000	2015 RM'000
Assets				
Non-current asset				
Property, plant and equipment	10	44,979	32,740	32,132
Current assets				
Inventories	12	30,526	25,427	24,680
Trade and other receivables	13	51,304	22,286	17,881
Other current assets	14	1,320	1,501	1,071
Cash and short-term deposits	15	12,484	16,041	12,442
		95,634	65,255	56,074
Total assets		140,613	97,995	88,206
Equity and liabilities				
Current liabilities				
Trade and other payables	16	48,071	27,832	21,469
Borrowings	17	40,210	30,012	27,495
Tax payable		1,712	762	992
		89,993	58,606	49,956
Net current assets		5,641	6,649	6,118
Non-current liabilities				
Borrowings	17	9,910	442	5,092
Deferred tax liabilities	18	1,324	1,169	274
		11,234	1,611	5,366
Total liabilities		101,227	60,217	55,322
Net assets		39,386	37,778	32,884
Equity attributable to the owner of the Company				
Share capital	19	—*	—	—
Retained earnings		25,211	22,381	18,125
Merger reserve	20	11,532	11,532	11,532
Foreign currency translation reserve	20	2,643	3,865	3,227
Total equity		39,386	37,778	32,884
Total equity and liabilities		140,613	97,995	88,206

* Less than RM1,000

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

APPENDIX C: AUDITED COMBINED FINANCIAL STATEMENTS OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH INDEPENDENT AUDITOR'S REPORT FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2015, 2016 AND 2017

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

Combined statements of changes in equity

For the financial years ended 31 December 2015, 2016 and 2017

	Share capital RM'000	Retained earnings RM'000	Merger reserve RM'000	Foreign currency translation reserve RM'000	Total RM'000
2015					
As at 1 January 2015	–	13,426	11,232	1,206	25,864
Profit for the year	–	7,499	–	–	7,499
Other comprehensive income	–	–	–	–	–
Foreign currency translation	–	–	–	2,021	2,021
Total comprehensive income for the year	–	7,499	–	2,021	9,520
Contributions by and distributions to owners					
Dividends on ordinary shares (Note 26)	–	(2,800)	–	–	(2,800)
Acquisition of a subsidiary under common control	–	–	300	–	300
As at 31 December 2015	–	18,125	11,532	3,227	32,884
2016					
As at 1 January 2016	–	18,125	11,532	3,227	32,884
Profit for the year	–	7,756	–	–	7,756
Other comprehensive income	–	–	–	–	–
Foreign currency translation	–	–	–	638	638
Total comprehensive income for the year	–	7,756	–	638	8,394
Distributions to owners					
Dividends on ordinary shares (Note 26)	–	(3,500)	–	–	(3,500)
As at 31 December 2016	–	22,381	11,532	3,865	37,778
2017					
As at 1 January 2017	–	22,381	11,532	3,865	37,778
Profit for the year	–	8,830	–	–	8,830
Other comprehensive income	–	–	–	–	–
Foreign currency translation	–	–	–	(1,222)	(1,222)
Total comprehensive income for the year	–	8,830	–	(1,222)	7,608
Distributions to owners					
Dividends on ordinary shares (Note 26)	–	(6,000)	–	–	(6,000)
As at 31 December 2017	–	25,211	11,532	2,643	39,386

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Knit Textile and Apparel Pte. Ltd. and its subsidiaries

Combined cash flow statements

For the financial years ended 31 December 2015, 2016 and 2017

	2017 RM'000	2016 RM'000	2015 RM'000
Operating activities			
Profit before tax	12,707	10,956	9,553
Adjustments for:			
Allowance for impairment of other receivables	–	148	–
Bad debts written off	27	–	–
Depreciation of property, plant and equipment	3,770	3,668	3,451
Interest expense	1,522	1,203	1,509
Gain on disposal of property, plant and equipment	(204)	(108)	(263)
Property, plant and equipment written off	–	–	156
Foreign exchange differences	(217)	161	206
Interest income	(251)	(244)	(234)
Operating profit before working capital changes	17,354	15,784	14,378
Increase in inventories	(5,099)	(747)	(3,919)
(Increase)/decrease in receivables	(31,115)	(4,007)	3,944
Decrease/(increase) in other current assets	154	(417)	(244)
Increase/(decrease) in payables	17,420	4,237	(251)
Cash flows (used in)/from operations	(1,286)	14,850	13,908
Interest paid	(1,522)	(1,203)	(1,509)
Taxes paid	(2,746)	(2,555)	(839)
Net cash (used in)/generated from operating activities	(5,554)	11,092	11,560
Investing activities			
Purchase of property, plant and equipment	(16,806)	(3,795)	(3,146)
Proceeds from disposal of property, plant and equipment	450	193	510
Interest received	251	244	234
Cash flows used in investing activities	(16,105)	(3,358)	(2,402)

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Knit Textile and Apparel Pte. Ltd. and its subsidiaries

Combined cash flow statements

For the financial years ended 31 December 2015, 2016 and 2017

	2017	2016	2015
	RM'000	RM'000	RM'000
Financing activities			
Repayment of obligations under finance leases	(263)	(224)	(469)
Placement of deposits pledged for security	(239)	(239)	(833)
Drawdown of term loans	9,936	1,723	–
Repayment of term loans	(1,824)	(1,253)	(487)
Drawdown/(repayment) of other short term borrowings	11,526	(3,059)	(4,086)
Dividends paid	(1,424)	(1,409)	(519)
Cash flows generated from/(used in) financing activities	17,712	(4,461)	(6,394)
Net (decrease)/increase in cash and cash equivalents	(3,947)	3,273	2,764
Effect of exchange rate changes on cash and cash equivalents	(246)	88	106
Cash and cash equivalents at beginning of the financial years	7,951	4,590	1,720
Cash and cash equivalents at end of the financial years (Note 15)	3,758	7,951	4,590

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Knit Textile and Apparel Pte. Ltd. and its subsidiaries

Notes to the combined financial statements

For the financial years ended 31 December 2015, 2016 and 2017

1. Corporate information

1.1 *The Company*

Knit Textile and Apparel Pte. Ltd. (the "Company") is a private limited company incorporated and domiciled in Singapore.

The registered office and principal place of business of the Company is located at 50 Raffles Place, #06-00 Singapore Land Tower, Singapore 048623.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

1.2 *The Proposed Restructuring*

On 27 September 2017, Lereno Bio-Chem Ltd. ("LBC") has entered into a conditional put and call option agreement (the "Agreement") with Mr. Lim Siau Hing @ Lim Kim Hoe (the "Vendor"), who is the Director of the Company for the proposed acquisition by LBC of the entire issued share capital of the Company at a purchase consideration of S\$26,400,000 (equivalent to RM80,120,700) (the "Proposed Acquisition"). The purchase consideration is to be fully satisfied by the allotment and issuance of an aggregate of 2,640,000,000 Consideration Shares to the Vendor at the pre-consolidation issue price of S\$0.01 (equivalent to RM0.03) each, in accordance with the terms and conditions of the Agreement.

As contemplated in the Agreement, for the purpose of the Proposed Acquisition, the Group will be formed through a restructuring (the "Proposed Restructuring"). The Vendor has undertaken to procure the Proposed Restructuring pursuant to which the Company will acquire, and directly or indirectly own, all of the issued and paid-up share capital of the following companies:

- Knit Textile Holdings Sdn. Bhd. ("KTH"), a company incorporated in Malaysia;
- Callisto Apparel Holdings Pte. Ltd., a company incorporated in Singapore;
- Moon Apparel Holdings Pte. Ltd., a company incorporated in Singapore;
- Knit Textiles Mfg. Sdn. Bhd. ("KTM"), a company incorporated in Malaysia;
- Ocean Art & Embellishment Sdn. Bhd., a company incorporated in Malaysia;
- Moon Apparel (Cambodia) Co., Ltd., a company incorporated in Cambodia;

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1. Corporate information (cont'd)

1.2 *The Proposed Restructuring (cont'd)*

- Callisto Apparel (Cambodia) Co., Ltd., a company incorporated in Cambodia; and
- Xentika Limited ("Xentika"), a company incorporated in Seychelles.

Pursuant to the Proposed Restructuring, the Company, will become the holding company of the Group.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The combined financial statements of the Group have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The combined financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The combined financial statements are presented in Ringgit Malaysia ("RM") and all values in the tables are rounded to the nearest thousand ("RM'000"), except when otherwise indicated.

2.2 *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial years except in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017, including the Amendments to FRS 7 *Disclosure Initiative*. The Group has included the additional required disclosure in Note 17. The adoption of these standards did not have any effect on the financial performance or position of the Group.

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2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 102 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
FRS 109 <i>Financial Instruments</i>	1 January 2018
FRS 115 <i>Revenue from Contracts with Customers</i>	1 January 2018
Amendments to FRS 115 <i>Clarifications to FRS 115 Revenue from Contracts with Customers</i>	1 January 2018
INT FRS 122 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
FRS 116 <i>Leases</i>	1 January 2019

Except for FRS 115 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the combined financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115 and FRS 116 are described below.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers and introduces new contract cost guidance. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary impact assessment of adopting FRS 115 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts FRS 115 in 2018.

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2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

FRS 115 *Revenue from Contracts with Customers* (cont'd)

The Group plans to apply the changes in accounting policies retrospectively to each reporting year presented, using the full retrospective approach. The Group also plans to apply the following practical expedients:

- For completed contracts, the Group plans not to restate completed contracts that begin and end within the same year or are completed contracts at 1 January 2017, and
- For completed contracts that have variable consideration, the Group plans to use the transaction price at the date the contract was completed instead of estimating variable consideration amounts in the comparative year.

The Group derived revenue from the sales of goods. The Group currently recognised revenue from sales of goods upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold.

The customers may be entitled to certain rebates and discounts. In accordance with FRS 115, the Group will estimate the transaction price and apply the constraint to the estimated transaction price. The Group includes in the transaction price an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved, taking into consideration both the likelihood and the magnitude of the revenue reversal.

On initial adoption of FRS 115, the Group expects an increase in both revenue and profit for the financial year ended 31 December 2017 and a decrease in both opening retained earnings and total equity as at 1 January 2017.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. The new leases standard is effective for annual periods beginning on or after 1 January 2019.

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2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

FRS 116 *Leases* (cont'd)

The Group has performed a preliminary impact assessment of the adoption of FRS 116 and expects that the adoption of FRS 116 will result in increase in total assets and total liabilities, earnings before interest, tax, depreciation and amortisation ("EBITDA") and gearing ratio.

The Group plans to adopt the new standard on the required effective date by applying FRS 116 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to FRS 116 and assessing the possible impact of adoption.

2.4 *Basis of consolidation*

The combined financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the combined financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The combined financial statements of the Group for the financial years ended 31 December 2015, 2016 and 2017 comprising the Company and its subsidiaries have been prepared in accordance with the pooling of interest method.

Business combinations

Business combinations involving entities under common control are accounted for by applying the pooling of interest method which involves the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements of the controlling holding company.
- No adjustments are made to reflect the fair values on the date of combination, or recognise any new assets or liabilities.

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2. Summary of significant accounting policies (cont'd)

2.4 *Basis of consolidation (cont'd)*

Business combinations (cont'd)

- No additional goodwill is recognised as a result of the combination.
- Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within the equity as merger reserve.
- The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparatives are restated to reflect the combination as if it had occurred from the beginning of the earliest period presented in the combined financial statements or from the date the entities had come under common control, if later.

2.5 *Foreign currency*

The combined financial statements are presented in RM, which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore is not depreciated.

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2. Summary of significant accounting policies (cont'd)

2.6 *Property, plant and equipment (cont'd)*

Depreciation is computed on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold land	– 60 years
Buildings	– 50 years
Plant and machinery, factory fittings	– 10 years
Electrical installation	– 10 years
Office equipment, furniture and fittings, renovation and computers	– 3 to 20 years
Motor vehicles	– 5 years

Buildings under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

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

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

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2. Summary of significant accounting policies (cont'd)

2.7 *Impairment of non-financial assets (cont'd)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.8 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

De-recognition

A financial asset is de-recognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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2. Summary of significant accounting policies (cont'd)

2.8 *Financial instruments (cont'd)*

(b) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.9 *Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

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2. Summary of significant accounting policies (cont'd)

2.9 *Impairment of financial assets (cont'd)*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.10 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand and short-term fixed deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.11 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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2. Summary of significant accounting policies (cont'd)

2.11 *Inventories (cont'd)*

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

2.12 *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.13 *Borrowing costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.14 *Employee benefits*

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company and the subsidiaries incorporated in Malaysia make contributions to the Central Provident Fund scheme in Singapore and the Employees Provident Fund in Malaysia respectively. These contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

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2. Summary of significant accounting policies (cont'd)

2.15 Leases

As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.16(c). Contingent rents are recognised as revenue in the period in which they are earned.

2.16 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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2. Summary of significant accounting policies (cont'd)

2.16 *Revenue (cont'd)*

(a) *Sales of goods*

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Interest income*

Interest income is recognised using the effective interest method.

(c) *Rental income*

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

2.17 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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2. Summary of significant accounting policies (cont'd)

2.17 Taxes (cont'd)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investment in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investment in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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2. Summary of significant accounting policies (cont'd)

2.17 Taxes (cont'd)

(b) Deferred tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the amount of GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.18 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

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3. Significant accounting judgements and estimates

The preparation of the Group's combined financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of the revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. Management is of the opinion that there is no significant judgement made in applying accounting policies and no estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

4. Revenue

Revenue represents the invoiced value of sales of goods, net of discounts and returns.

5. Other income

	2017	2016	2015
	RM'000	RM'000	RM'000
Gain on disposal of property, plant and equipment	204	108	263
Foreign exchange gain, net	1,056	–	–
Rental income	25	24	24
Subcontract income	183	186	5
Sale of samples	–	133	117
Insurance claims	15	58	67
Sundry income	9	64	13
	1,492	573	489

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6. Finance costs

	2017	2016	2015
	RM'000	RM'000	RM'000
Interest expense on:			
– Bank loans and overdrafts	307	251	299
– Bankers' acceptance	388	497	826
– Obligations under finance leases	40	32	27
– Trust receipts and foreign bill of exchange	787	423	357
	1,522	1,203	1,509
	1,522	1,203	1,509

7. Employee benefits

	2017	2016	2015
	RM'000	RM'000	RM'000
Salaries and bonuses	30,587	25,726	22,940
Employers' contribution to defined contribution plans	578	486	414
Other short-term benefits	1,225	757	189
	32,390	26,969	23,543
	32,390	26,969	23,543

8. Profit before tax

Profit before tax is stated after charging:

	2017	2016	2015
	RM'000	RM'000	RM'000
Allowance for impairment of other receivables	–	148	–
Bad debts written off	27	–	–
Depreciation of property, plant and equipment (Note 10)	3,770	3,668	3,451
Rental of machinery	21	30	42
Foreign exchange loss, net	–	413	604
Property, plant and equipment written off	–	–	156
Rental of premises	1,366	1,320	1,265
Employee benefits (Note 7)	32,390	26,969	23,543
	32,390	26,969	23,543
	32,390	26,969	23,543

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9. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2015, 2016 and 2017 are:

	2017	2016	2015
	RM'000	RM'000	RM'000
Current income tax			
– Current income tax	3,656	2,570	1,693
– Under provision in respect of previous years	66	(265)	109
	<u>3,722</u>	<u>2,305</u>	<u>1,802</u>
Deferred income tax (Note 18):			
– Relating to origination and reversal of temporary differences	78	(34)	216
– Under provision in respect of previous years	77	929	36
	<u>155</u>	<u>895</u>	<u>252</u>
Income tax expense recognised in profit or loss	<u><u>3,877</u></u>	<u><u>3,200</u></u>	<u><u>2,054</u></u>

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9. Income tax expense (cont'd)

Relationship between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rates for the financial years 31 December 2015, 2016 and 2017 are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
Profit before tax	12,707	10,956	9,553
Tax at Malaysia statutory tax rate of 24% (2016: 24% and 2015: 25%)	3,050	2,630	2,388
Adjustments:			
Differences in tax rates	357	(533)	1
Income not subject to tax	(343)	–	(557)
Non-deductible expenses	381	653	170
Effect of tax relief	(193)	(214)	(202)
Deferred tax assets not recognised	482	108	258
Benefits from previous unrecognised tax losses	–	(108)	(149)
Under provision in respect of previous years	143	664	145
Income tax expense recognised in profit or loss	3,877	3,200	2,054

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10. Property, plant and equipment

		Plant and machinery and factory fittings	Electrical installation	Office equipment, furniture and fittings, renovation and computers	Motor vehicles	Total
	*Land and buildings	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At 1 January 2015	13,251	17,870	3,412	9,786	2,575	46,894
Additions	87	2,552	39	349	690	3,717
Disposals	–	(334)	–	(3)	(715)	(1,052)
Written off	(36)	–	(71)	(144)	–	(251)
Exchange differences	–	1,620	304	1,095	69	3,088
At 31 December 2015 and 1 January 2016	13,302	21,708	3,684	11,083	2,619	52,396
Additions	1,278	2,182	–	255	202	3,917
Disposals	–	(79)	–	–	(265)	(344)
Exchange differences	–	454	75	276	17	822
At 31 December 2016 and 1 January 2017	14,580	24,265	3,759	11,614	2,573	56,791
Additions	15,773	543	–	207	737	17,260
Disposals	(150)	–	–	–	(471)	(621)
Exchange differences	–	(986)	(163)	(602)	(40)	(1,791)
At 31 December 2017	30,203	23,822	3,596	11,219	2,799	71,639

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10. Property, plant and equipment (cont'd)

	*Land and buildings	Plant and machinery and factory fittings	Electrical installation	Office equipment, furniture and fittings, renovation and computers	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accumulated depreciation						
At 1 January 2015	1,581	7,183	1,783	4,911	1,449	16,907
Charge for the financial year	313	1,624	279	856	379	3,451
Disposals	–	(145)	–	(1)	(659)	(805)
Written off	–	–	(41)	(54)	–	(95)
Exchange differences	–	321	69	396	20	806
At 31 December 2015 and 1 January 2016	1,894	8,983	2,090	6,108	1,189	20,264
Charge for the financial year	313	1,837	243	858	417	3,668
Disposals	–	–	–	–	(259)	(259)
Exchange differences	–	169	34	164	11	378
At 31 December 2016 and 1 January 2017	2,207	10,989	2,367	7,130	1,358	24,051
Charge for the financial year	313	1,905	240	832	480	3,770
Disposals	(27)	–	–	–	(348)	(375)
Exchange differences	–	(355)	(70)	(345)	(16)	(786)
At 31 December 2017	2,493	12,539	2,537	7,617	1,474	26,660
Net carrying amount						
At 31 December 2015	11,408	12,725	1,594	4,975	1,430	32,132
At 31 December 2016	12,373	13,276	1,392	4,484	1,215	32,740
At 31 December 2017	27,710	11,283	1,059	3,602	1,325	44,979

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10. Property, plant and equipment (cont'd)

* The details of land and buildings are as follows:

	Freehold land RM'000	Long term leasehold land RM'000	Buildings RM'000	Buildings under construction RM'000	Total RM'000
Cost					
At 1 January 2015	225	4,028	8,962	36	13,251
Additions	—	—	87	—	87
Written off	—	—	—	(36)	(36)
At 31 December 2015 and 1 January 2016	225	4,028	9,049	—	13,302
Additions	—	1,272	6	—	1,278
At 31 December 2016 and 1 January 2017	225	5,300	9,055	—	14,580
Additions	6,610	—	—	9,163	15,773
Disposals	(45)	—	(105)	—	(150)
At 31 December 2017	6,790	5,300	8,950	9,163	30,203
Accumulated depreciation					
At 1 January 2015	—	353	1,228	—	1,581
Charge for the financial year	—	69	244	—	313
At 31 December 2015 and 1 January 2016	—	422	1,472	—	1,894
Charge for the financial year	—	69	244	—	313
At 31 December 2016 and 1 January 2017	—	491	1,716	—	2,207
Charge for the financial year	—	69	244	—	313
Disposals	—	—	(27)	—	(27)
At 31 December 2017	—	560	1,933	—	2,493
Net carrying amount					
At 31 December 2015	225	3,606	7,577	—	11,408
At 31 December 2016	225	4,809	7,339	—	12,373
At 31 December 2017	6,790	4,740	7,017	9,163	27,710

(a) Assets held under finance leases

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM454,000 (2016: RM122,000 and 2015: RM571,000) by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to RM16,806,000 (2016: RM3,795,000 and 2015: RM3,146,000).

The carrying amount of motor vehicles held under finance leases at the end of the reporting period were RM1,030,000 (2016: RM985,000 and 2015: RM1,123,000) respectively.

Leased assets are pledged as security for the related finance lease liabilities.

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10. Property, plant and equipment (cont'd)

- (b) In addition to assets held under finance leases, the net book value of property, plant and equipment pledged to banks for borrowings as referred to in Note 17 are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
Freehold land	6,790	225	225
Leasehold land	3,468	3,537	3,606
Buildings	7,017	7,339	7,577
Buildings under construction	9,163	—	—
	26,438	11,101	11,408

11. Subsidiaries

The Group has the following subsidiaries:

Name	Country of incorporation	Principal activities	Equity interest held		
			2017	2016	2015
			%	%	%
<i>Held by the Company:</i>					
Knit Textiles Mfg. Sdn. Bhd. ⁽¹⁾	Malaysia	Apparel manufacturing	100*	100*	100*
Xentika Limited ⁽²⁾	Seychelles	International business	100*	100*	100*
Callisto Apparel Holdings Pte. Ltd. ⁽³⁾	Singapore	Investment holding	100	—	—
Moon Apparel Holdings Pte. Ltd. ⁽³⁾	Singapore	Investment holding	100	—	—
<i>Held through subsidiaries:</i>					
Ocean Art & Embellishment Sdn. Bhd. ⁽¹⁾	Malaysia	Operation of a fabric dyeing and finishing plant	100*	100*	100*
Callisto Apparel (Cambodia) Co., Ltd. ⁽²⁾	Cambodia	Apparel manufacturing	100*	100*	100*
Moon Apparel (Cambodia) Co., Ltd. ⁽²⁾	Cambodia	Apparel manufacturing	100*	100*	100*

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11. Subsidiaries (cont'd)

- (1) Audited by member firm of EY Global in Malaysia
- (2) Audited by member firm of EY Global in Malaysia, for consolidation purposes only
- (3) Not required to be audited
- * Pursuant to the Proposed Restructuring as described in Note 2.1, the Company will become the holding company of the Group. These subsidiaries are deemed to be held by the Company from the beginning of the earliest period presented in the combined financial statements.

12. Inventories

	2017 RM'000	2016 RM'000	2015 RM'000
Combined statement of financial position:			
At cost:			
Raw materials	16,619	5,532	6,220
Work-in-progress	10,127	12,989	12,086
Finished goods	3,780	6,906	6,374
	<u>30,526</u>	<u>25,427</u>	<u>24,680</u>
Combined statement of comprehensive income:			
Inventories recognised as an expense in cost of sales	<u>132,125</u>	<u>91,133</u>	<u>80,788</u>

13. Trade and other receivables

	2017 RM'000	2016 RM'000	2015 RM'000
Trade receivables			
Trade receivables	47,124	21,044	16,988
Less: Allowance for impairment	–	(2,038)	(2,038)
Trade receivables, net	<u>47,124</u>	<u>19,006</u>	<u>14,950</u>
Other receivables			
Deposits	1,932	2,657	1,853
Goods and Services tax	1,616	272	395
Sundry receivables	632	516	700
	<u>4,180</u>	<u>3,445</u>	<u>2,948</u>
Less: Allowance for impairment	–	(165)	(17)
Other receivables, net	<u>4,180</u>	<u>3,280</u>	<u>2,931</u>
Total trade and other receivables	<u>51,304</u>	<u>22,286</u>	<u>17,881</u>

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13. Trade and other receivables (cont'd)

	2017	2016	2015
	RM'000	RM'000	RM'000
Total trade and other receivables	51,304	22,286	17,881
Add: Cash and bank balances (Note 15)	12,484	16,041	12,442
Less: Goods and Services tax	(1,616)	(272)	(395)
Less: Tax recoverable	(1)	(1)	(1)
Total loans and receivables	62,171	38,054	29,927

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days (2016: 30 to 90 days and 2015: 30 to 90 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables denominated in foreign currency at 31 December are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
United States Dollar	47,124	21,044	16,989

Receivables that are neither past due nor impaired

The Group has trade receivables amounting to RM6,788,000 (2016: RM1,360,000 and 2015: RM593,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
Trade receivables past due but not impaired:			
Lesser than 60 days	6,592	594	505
60 – 120 days	126	707	65
More than 120 days	70	59	23
	6,788	1,360	593

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13. Trade and other receivables (cont'd)

Trade receivables (cont'd)

Receivables that are impaired

The Group's trade and other receivables that are individually impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

	Individually impaired		
	2017	2016	2015
	RM'000	RM'000	RM'000
Nominal amount	–	2,203	2,055
Less: Allowance for impairment	–	(2,203)	(2,055)
	–	–	–
<u>Movement in allowance accounts:</u>			
At 1 January	2,203	2,055	2,055
Allowance for impairment	–	148	–
Written off	(2,203)	–	–
At 31 December	–	2,203	2,055

14. Other current assets

	2017	2016	2015
	RM'000	RM'000	RM'000
Prepayments	484	431	497
Advance payment to suppliers	836	1,070	574
	1,320	1,501	1,071

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15. Cash and short-term deposits

	2017	2016	2015
	RM'000	RM'000	RM'000
Cash on hand and at banks	4,154	7,951	4,590
Deposits with licensed banks	8,330	8,090	7,852
Cash and short-term deposits	12,484	16,041	12,442
Less: Deposits with licensed banks	(8,330)	(8,090)	(7,852)
Less: Bank overdrafts (Note 17)	(396)	—	—
Cash and cash equivalents	3,758	7,951	4,590

Deposits with licensed banks of the Group amounting to RM4,614,000 (2016: RM4,474,000 and 2015: RM4,337,000) are registered in the name of a director who held in trust for the Company.

Deposits with licensed banks are pledged to banks for banking facilities granted to the Group as referred to in Note 17.

At the end of the reporting period, the weighted average effective interest rate and maturity of deposits with licensed banks of the Group were 2.87% per annum and 180 days (2016: 2.56% per annum and 179 days and 2015: 2.56% per annum and 179 days) respectively.

Cash and short-term deposits denominated in foreign currency as at 31 December are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
United States Dollar	1,391	5,507	1,929

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16. Trade and other payables

	2017	2016	2015
	RM'000	RM'000	RM'000
Trade payables			
Third parties	27,171	16,210	10,309
Other payables			
Amounts due to directors/shareholders	10,752	5,550	4,615
Other payables and accruals	10,148	6,072	6,545
	20,900	11,622	11,160
Total trade and other payables	48,071	27,832	21,469
Add: Loans and borrowings (Note 17)	50,120	30,454	32,587
Total financial liabilities carried at amortised cost	98,191	58,286	54,056

Trade payables/other payables

These amounts are non-interest bearing. Trade and other payables are normally settled on 30 to 60 day terms (2016: 30 to 60 days and 2015: 30 to 60 days).

Trade payables denominated in foreign currency as at 31 December are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
United States Dollar	26,741	10,002	10,809
Singapore Dollar	368	216	154

Amounts due to directors/shareholders

Amounts due to directors/shareholders are unsecured and non-interest bearing. Included in the amounts are dividends payables of RM2,281,000, RM4,372,000 and RM8,948,000 as at 31 December 2015, 2016, and 2017 respectively.

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16. Trade and other payables (cont'd)

Amounts due to directors/shareholders (cont'd)

Subsequent to 31 December 2017, dividend payable of RM3,813,000 have been settled. The repayment terms of the remaining balances of amounts due to directors/shareholders are as follows:

- dividend payable of RM2,135,000 are to be settled by 31 December 2018;
- dividend payable of RM3,000,000 are to be settled by 31 March 2019; and
- the remaining balances are to be settled in full or in part from time to time, at such time or times, as may be agreed by the Group and LBC, and subject always to the New Audit Committee of LBC being satisfied that such payments will not adversely affect the ongoing working capital or liquidity requirements and the financial position of the Group.

17. Borrowings

	2017	2016	2015
Maturity	RM'000	RM'000	RM'000
Short term borrowings			
– secured			
Trust receipts	20,799	16,172	14,246
Bankers' acceptances	7,969	6,504	11,388
Bank overdrafts (Note 15)	396	–	–
Invoice financing	5,947	1,064	625
RM loan at COF + 2.0% p.a.	217	322	99
RM loan at KLIBOR + 1.75% p.a.	2,220	2,542	305
USD loan at COF + 2.75% p.a.	1,926	3,203	516
5% p.a. fixed rate RM loan	439	–	–
RM loan at BLR + 1% p.a.	–	–	96
Obligation under finance leases	297	205	220
	40,210	30,012	27,495

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17. Borrowings (cont'd)

Short term borrowings have maturity of less than 12 months or are expected to be repaid on demand.

	Maturity	2017 RM'000	2016 RM'000	2015 RM'000
Long term borrowings – secured				
5% p.a. fixed rate RM loan	2037	9,369	–	–
RM loan at COF + 2.0% p.a.	2019	–	–	322
RM loan at KLIBOR + 1.75% p.a.	2023	–	–	2,544
USD loan at COF + 2.75% p.a.	2020	–	–	1,697
Obligation under finance leases	2019 – 2022	541	442	529
		9,910	442	5,092

Total borrowings

Trust receipts	20,799	16,172	14,246
Bankers' acceptances	7,969	6,504	11,388
Bank overdrafts	396	–	–
Invoice financing	5,947	1,064	625
Bank loans	14,171	6,067	5,579
Obligation under finance leases	838	647	749
	50,120	30,454	32,587

* BLR: Base lending rate

* COF: Cost of fund

* KLIBOR: Kuala Lumpur Inter Bank Offer Rate

	2017 RM'000	2016 RM'000	2015 RM'000
Maturity of borrowings (excluding finance lease payables)			
Not later than one year	39,913	29,807	27,277
Later than one year but not later than five years	1,987	–	3,388
Later than five years	7,382	–	1,173
	49,282	29,807	31,838

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17. Borrowings (cont'd)

As at 31 December 2016 and 2017, a subsidiary within the Group did not comply with certain financial covenants stipulated in the banking facilities letters. Accordingly, loans amounted to RM4,464,000 and RM2,818,000 as at 31 December 2016 and 2017 respectively, became repayable on demand. The non-current portion of the loans have been reclassified as current. As at date of the report of this combined financial statements, the bank has not recalled the loans.

The secured borrowings of the Group are secured by legal charges over the freehold land, leasehold land, buildings and deposits with licensed banks of the Group as disclosed in Note 10 and Note 15 respectively.

Obligation under finance leases

The Group has finance leases with certain items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
Minimum finance lease payments:			
Not later than one year	330	231	251
Later than one year but not later than 5 years	571	467	569
Total minimum lease payments	901	698	820
Less: Future finance charges	(63)	(51)	(71)
Present value of minimum lease payments	838	647	749
Analysis of present value of minimum lease payments:			
Not later than one year	297	205	220
Later than one year but not later than 5 years	541	442	529
	838	647	749

The finance lease payables bore interest at reporting date of between 2.41% and 2.84% (2016: 2.41% and 3.14% and 2015: 2.41% and 3.14%) per annum.

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17. Borrowings (cont'd)

Bank overdrafts

Bank overdrafts are denominated in RM, bear interest at BLR + 1.5% (2016: BLR + 1.5% and 2015: BLR + 1.5%) per annum.

The weighted average effective interest rates at the end of reporting period for borrowings, excluding hire purchase payables, were as follows:

	2017	2016	2015
	%	%	%
Trusts receipts	1.48	1.27	1.77
Bankers' acceptances	4.82	4.88	5.13
Invoice financing	3.07	4.31	8.13
Term loans	4.95	4.37	4.62

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17. Borrowings (cont'd)

A reconciliation of liabilities arising from financing activities is as follows:

	Non-cash changes					Non-cash changes					
	2015 RM'000	Cash flows RM'000	Acquisition RM'000	Foreign exchange movement RM'000	Other RM'000	2016 RM'000	Cash flows RM'000	Acquisition RM'000	Foreign exchange movement RM'000	Other RM'000	2017 RM'000
Obligations under finance leases											
– current	220	(224)	30	–	179	205	(263)	100	–	255	297
– non-current	529	–	92	–	(179)	442	–	354	–	(255)	541
Bank loan											
– current	1,016	(1,253)	–	6	6,298	6,067	(1,824)	–	–	559	4,802
– non-current	4,563	1,723	–	12	(6,298)	–	9,936	–	(8)	(559)	9,369
Other short-term borrowings	26,259	(3,059)	–	540	–	23,740	11,526	–	(551)	–	34,715
	32,587	(2,813)	122	558	–	30,454	19,375	454	(559)	–	49,724

The 'other' column relates to reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time.

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18. Deferred tax liabilities

	2017 RM'000	2016 RM'000	2015 RM'000
At 1 January	1,169	274	22
Recognised in profit or loss (Note 9)	155	895	252
At 31 December	1,324	1,169	274

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

	Accelerated capital allowances RM'000	Others RM'000	Net RM'000
At 1 January 2015	253	(231)	22
Recognised in profit or loss	117	135	252
At 31 December 2015 and 1 January 2016	370	(96)	274
Recognised in profit or loss	977	(82)	895
At 31 December 2016 and 1 January 2017	1,347	(178)	1,169
Recognised in profit or loss	(31)	186	155
At 31 December 2017	1,316	8	1,324

Deferred tax assets have not been recognised in respect of the following items:

	2017 RM'000	2016 RM'000	2015 RM'000
Unutilised tax losses	5,969	2,701	3,241
Unabsorbed capital allowances	483	483	513

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18. Deferred tax liabilities (cont'd)

Unrecognised temporary differences relating to investment in subsidiaries

At the end of the reporting period, no deferred tax liability (2016: Nil and 2015: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

19. Share capital

	Number of shares			Amount		
	2017	2016	2015	2017	2016	2015
				RM'000	RM'000	RM'000
Issued and fully paid ordinary shares						
At 1 January	—	—	—	—	—	—
Issuance of ordinary shares	2	—	—	—*	—	—
At 31 December	2	—	—	—*	—	—

* Less than RM1,000

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

20. Reserves

Merger reserve

Merger reserve comprises the share capital of the subsidiaries under common control accounted for by applying the pooling of interest method, as described in Note 2.4 to the combined financial statements.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

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21. Significant related party transactions

(a) Sale and purchase of goods and services

The Group enters into transactions with related parties in the normal course of business and at arm's length. Related parties include subsidiaries of the Group and key management personnel and their related parties.

Apart from related party information disclosed elsewhere in the financial statements, there was no significant transaction between the Company and related parties during the financial years ended 31 December 2015, 2016 and 2017.

(b) Compensation of key management personnel

	2017	2016	2015
	RM'000	RM'000	RM'000
Short term employee benefits	392	387	339
Employers' contribution to defined contribution schemes	54	46	41
	<u>446</u>	<u>433</u>	<u>380</u>
Comprise amounts paid to:			
– Directors of the Company	<u>446</u>	<u>433</u>	<u>380</u>

22. Commitments

Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
Approved and contracted for:			
– Industrial land	<u>–</u>	<u>5,762</u>	<u>6,400</u>

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22. Commitments (cont'd)

Operating lease commitments – as lessee

The Group has entered into a non-cancellable operating lease agreement for the use of building. The lease is for a period of 5 years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2017 amounted to RM1,366,415 (2016: RM1,320,064; 2015: RM1,264,750).

The future minimum lease payments under non-cancellable operating leases contracted for as at balance sheet date but not recognised as liabilities are as follows:

	2017	2016	2015
	RM'000	RM'000	RM'000
Not later than one year	1,258	1,238	1,174
Later than one year but not later five years	769	1,942	2,903
	2,027	3,180	4,077

23. Fair value of assets and liabilities

(a) *Fair value hierarchy*

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or the liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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23. Fair value of assets and liabilities (cont'd)

- (b) ***Assets and liabilities that are not carried at fair value but whose carrying amounts are reasonable approximation of fair value***

Trade and other receivables (Note 13), cash and short-term deposits (Note 15), borrowings – current (Note 17) and trade and other payables (Note 16)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

Borrowings – non-current (Note 17)

The carrying amount of the non-current fixed rate loans are reasonable approximation of fair value as the fixed interest rate approximates the market lending rate at the end of the reporting period.

24. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increase credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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24. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Exposure to credit risk

At the reporting date, the Group's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statement of financial position, with positive fair values.
- Information regarding credit enhancements for trade and other receivables is disclosed in Note 13.

Credit risk concentration profile

At the end of the reporting period, approximately 75% (2016: 95% and 2015: 92%) of the Group's trade receivables were due from 4 (2016: 5 and 2015: 3) major customers.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 13. Deposits with banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 13.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

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24. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	One year or less RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
31 December 2017				
Financial liabilities:				
Trade and other payables	48,071	–	–	48,071
Loans and borrowings	41,413	5,225	7,991	54,629
Total undiscounted financial liabilities	89,484	5,225	7,991	102,700
31 December 2016				
Financial liabilities:				
Trade and other payables	27,832	–	–	27,832
Loans and borrowings	30,707	467	–	31,174
Total undiscounted financial liabilities	58,539	467	–	59,006
31 December 2015				
Financial liabilities:				
Trade and other payables	21,469	–	–	21,469
Loans and borrowings	27,762	4,489	1,269	33,520
Total undiscounted financial liabilities	49,231	4,489	1,269	54,989

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24. Financial risk management objectives and policies (cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from their loans and borrowings. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

Sensitivity analysis for interest rate risk

During the financial year, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the effect would be immaterial to the Group's profit net of tax. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observable market environment.

Foreign currency risk

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

The Group is exposed to transactional currency risk primarily respective through purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The currency giving rise to this risk are primarily United States Dollars ("USD") and Singapore Dollars ("SGD"). Such transactions are kept to an acceptable level.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD against the functional currency of the Group, with all other variables held constant.

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24. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk (cont'd)

	2017	2016	2015
	RM'000	RM'000	RM'000
USD/RM			
– strengthen by 5% (2016: 5%; 2015: 5%)	(373)	(15)	(464)
– weaken by 5% (2016: 5%; 2015: 5%)	373	15	464
SGD/RM			
– strengthen by 5% (2016: 5%; 2015: 5%)	(18)	(11)	(8)
– weaken by 5% (2016: 5%; 2015: 5%)	18	11	8

25. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2015, 2016 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and short-term deposits. Capital includes equity attributable to the owners of the Company.

**APPENDIX C: AUDITED COMBINED FINANCIAL STATEMENTS OF KNIT
TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE FINANCIAL YEARS ENDED
31 DECEMBER 2015, 2016 AND 2017**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

Notes to the combined financial statements

For the financial years ended 31 December 2015, 2016 and 2017

25. Capital management (cont'd)

	Note	2017 RM'000	2016 RM'000	2015 RM'000
Trade and other payables	16	48,071	27,832	21,469
Loans and borrowings	17	50,120	30,454	32,587
Less: Cash and short-term deposits	15	(12,484)	(16,041)	(12,442)
Net debts		85,707	42,245	41,614
Equity attributable to equity holders of the Company, representing total capital		39,386	37,778	32,884
Gearing ratio		2.18	1.12	1.27

26. Dividends

	2017 RM'000	2016 RM'000	2015 RM'000
Declared during the financial year			
Interim single tier dividend for 2017: RM2.50 (2016: RM1.46; 2015: RM1.17) per share paid by Knit Textiles Mfg. Sdn. Bhd. to its then existing shareholders	6,000	3,500	2,800

27. Events occurring after the reporting period

KTH was incorporated on 26 January 2018 in Malaysia as a private company limited by shares with an issued and paid-up share capital of RM1 comprising one share, which was held by the Vendor.

28. Authorisation of financial statements for issue

The financial statements for the financial years ended 31 December 2015, 2016 and 2017 were authorised for issue in accordance with a resolution of the directors on 21 December 2018.

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APPENDIX D: RECONCILIATION ON FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) (“SFRS(I)”) AND ADOPTION OF NEW STANDARDS

In December 2017, the Accounting Standards Council (“ASC”) issued the SFRS(I). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

On 19 January 2018, Monetary Authority of Singapore (“MAS”) announced that entities lodging prospectus with MAS on or after 1 January 2018 are required to prepare historical audited financial statements restated up to three years, in accordance with SFRS(I). Transitional relief was provided to entities that currently use Singapore Financial Reporting Standards (“SFRS”) from restating the historical financial statements in accordance with SFRS(I). For entities whose track record period includes annual periods beginning on or after 1 January 2017, the transitional relief requires that the entity provides:

- historical financial information for the year(s) prior to the annual period beginning on or after 1 January 2017 prepared in SFRS;
- historical financial information for the annual period beginning on or after 1 January 2017 prepared in SFRS, accompanied by:
 - (a) a reconciliation of the four primary financial statements (i.e. statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows) reported in accordance with SFRS, to SFRS(I); and
 - (b) notes to describe any differences between the financial figures prepared in SFRS and those in SFRS(I);
- historical financial information for the annual period beginning or after 1 January 2018 (if any) prepared in SFRS(I).

The Group has elected to adopt this transition relief to prepare this set of combined financial statements.

In adopting the new framework, the Group will be required to apply the specific transition requirements in SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*.

In addition to the adoption of the new framework, the Group will also concurrently apply the following new SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are applicable to the Group and mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers*;
- SFRS(I) 9 *Financial Instruments*;
- requirements in SFRS(I) 2 *Share-based Payment*;
- requirements in SFRS(I) 1; and
- SFRS(I) INT 22 *Foreign Currency Transactions and Advance Consideration*.

The Group does not expect the application of the above standards and interpretations to have a significant impact on the financial statements, except for SFRS(I) 15.

APPENDIX D: RECONCILIATION ON FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) ("SFRS(I)") AND ADOPTION OF NEW STANDARDS

Reconciliation of historical financial information prepared in accordance with SFRS to SFRS(I) 1 as part of transitional relief

Below are the summary of the reconciliation of historical financial information prepared in accordance with SFRS to SFRS(I) 1.

**Reconciliation of Combined Statement of Financial Position
as at 31 December 2017**

	SFRS RM'000	Effect of transition to SFRS(I) RM'000	SFRS(I) RM'000
Assets			
Non-current asset			
Property, plant and equipment	44,979	–	44,979
Current assets			
Inventories	30,526	–	30,526
Trade and other receivables	51,304	(428)	50,876
Other current assets	1,320	–	1,320
Cash and short-term deposits	12,484	–	12,484
	95,634	(428)	95,206
Total assets	140,613	(428)	140,185
Equity and liabilities			
Current liabilities			
Trade and other payables	48,071	–	48,071
Borrowings	40,210	–	40,210
Tax payable	1,712	–	1,712
	89,993	–	89,993
Net current assets	5,641	(428)	5,213
Non-current liabilities			
Borrowings	9,910	–	9,910
Deferred tax liabilities	1,324	–	1,324
	11,234	–	11,234
Total liabilities	101,227	–	101,227
Net assets	39,386	(428)	38,958
Equity attributable to the owner of the Company			
Share capital	–*	–	–*
Retained earnings	25,211	(428)	24,783
Merger reserve	11,532	–	11,532
Foreign currency translation reserve	2,643	–	2,643
Total equity	39,386	(428)	38,958
Total equity and liabilities	140,613	(428)	140,185

* Less than RM1,000

**APPENDIX D: RECONCILIATION ON FULL CONVERGENCE WITH
SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)
("SFRS(I)") AND ADOPTION OF NEW STANDARDS**

**Reconciliation of Combined Statement of Comprehensive Income
For the year ended 31 December 2017**

	SFRS RM'000	Effect of transition to SFRS(I) RM'000	SFRS(I) RM'000
Revenue	218,301	23	218,324
Cost of sales	(182,459)	–	(182,459)
Gross profit	35,842	23	35,865
Other items of income			
Interest income	251	–	251
Other income	1,492	–	1,492
Other items of expense			
Administrative and general expenses	(16,084)	–	(16,084)
Selling and marketing expenses	(7,272)	–	(7,272)
Finance costs	(1,522)	–	(1,522)
Profit before tax	12,707	23	12,730
Income tax expense	(3,877)	–	(3,877)
Profit for the year	8,830	23	8,853
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation	(1,222)	–	(1,222)
Total comprehensive income for the year	7,608	23	7,631

**APPENDIX D: RECONCILIATION ON FULL CONVERGENCE WITH
SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)
("SFRS(I)") AND ADOPTION OF NEW STANDARDS**

**Reconciliation of Combined Statement of Changes in Equity
For the financial year ended 31 December 2017**

	Share capital RM'000	Retained earnings RM'000	Merger reserve RM'000	Foreign currency translation reserve RM'000	Total RM'000
2017					
As at 1 January 2017 (as previously reported)	–	22,381	11,532	3,865	37,778
Effect of transition to SFRS(I)	–	(451)	–	–	(451)
As at 1 January 2017 (as restated)	–	21,930	11,532	3,865	37,327
Profit for the year, based on SFRS	–	8,830	–	–	8,830
Effect of transition to SFRS(I)	–	23	–	–	23
Profit for the year, based on SFRS(I)	–	8,853	–	–	8,853
<u>Other comprehensive income</u>					
Foreign currency translation	–	–	–	(1,222)	(1,222)
Total comprehensive income for the year	–	8,853	–	(1,222)	7,631
<u>Distributions to owners</u>					
Dividends on ordinary shares (Note 26)	–	(6,000)	–	–	(6,000)
As at 31 December 2017	–	24,783	11,532	2,643	38,958

**APPENDIX D: RECONCILIATION ON FULL CONVERGENCE WITH
SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL)
("SFRS(I)") AND ADOPTION OF NEW STANDARDS**

**Reconciliation of Combined Statement of Cash Flows
For the financial year ended 31 December 2017**

	SFRS RM'000	Effect of transition to SFRS(I) RM'000	SFRS(I) RM'000
Operating activities			
Profit before tax	12,707	23	12,730
<u>Adjustments for:</u>			
Bad debts written off	27	—	27
Depreciation of property, plant and equipment	3,770	—	3,770
Interest expense	1,522	—	1,522
Gain on disposal of property, plant and equipment	(204)	—	(204)
Foreign exchange differences	(217)	—	(217)
Interest income	(251)	—	(251)
Operating profit before working capital changes	17,354	23	17,377
Increase in inventories	(5,099)	—	(5,099)
Increase in receivables	(31,115)	(23)	(31,138)
Decrease in other current assets	154	—	154
Increase in payables	17,420	—	17,420
Cash flows used in operations	(1,286)	—	(1,286)
Interest paid	(1,522)	—	(1,522)
Taxes paid	(2,746)	—	(2,746)
Net cash used in operating activities	(5,554)	—	(5,554)
Investing activities			
Purchase of property, plant and equipment	(16,806)	—	(16,806)
Proceeds from disposal of property, plant and equipment	450	—	450
Interest received	251	—	251
Cash flows used in investing activities	(16,105)	—	(16,105)
Financing activities			
Repayment of obligations under finance leases	(263)	—	(263)
Placement of deposits pledged for security	(239)	—	(239)
Drawdown of term loans	9,936	—	9,936
Repayment of term loans	(1,824)	—	(1,824)
Drawdown/(repayment) of other short term borrowings	11,526	—	11,526
Dividends paid	(1,424)	—	(1,424)
Cash flows generated from financing activities	17,712	—	17,712
Net decrease in cash and cash equivalents	(3,947)	—	(3,947)
Effect of exchange rate changes on cash and cash equivalents	(246)	—	(246)
Cash and cash equivalents at beginning of the financial year	7,951	—	7,951
Cash and cash equivalents at end of the financial year	3,758	—	3,758

APPENDIX D: RECONCILIATION ON FULL CONVERGENCE WITH SINGAPORE FINANCIAL REPORTING STANDARDS (INTERNATIONAL) ("SFRS(I)") AND ADOPTION OF NEW STANDARDS

Notes to the reconciliation

Under SFRS(I) 15, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group derived revenue from the sales of goods. The customers may be entitled to certain rebates and discounts. In accordance with SFRS(I) 15, the Group is required to estimate the transaction price and apply the constraint to the estimated transaction price. The Group includes in the transaction price an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved, taking into consideration both the likelihood and the magnitude of the revenue reversal.

The Group has applied the following practical expedients in accordance with the transitional provisions in accordance with the transitional provisions in SFRS(I) 15:

- For completed contracts, the Group has not restated completed contracts that begin and end within the same year or are completed contracts at 1 January 2017, and
- For completed contracts that have variable consideration, the Group had used the transaction price at the date the contract was completed instead of estimating variable consideration amounts for the financial year ended 31 December 2017.

The effects of adoption on the financial statements for the year ended 31 December 2017 are as follows:

- Increase in revenue and profit for the year by RM23,000;
- Decrease in total assets and net assets by RM428,000;
- Decrease in opening retained earnings by RM451,000 and total equity by RM428,000; and
- No impact on changes in cash flows and cash and cash equivalents

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Independent auditor's report on review of interim combined financial statements
For the six-month period ended 30 June 2018**

21 December 2018

The Board of Directors
50 Raffles Place
#06-00 Singapore Land Tower
Singapore 048623

Report on Review of Interim Combined Financial Statements

Introduction

We have reviewed the accompanying interim combined financial statements of Knit Textile and Apparel Pte. Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the interim combined statement of financial position as at 30 June 2018, and the interim combined statement of comprehensive income, interim combined statement of changes in equity and interim combined cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with Singapore Financial Reporting Standard (International) 1-34 *Interim Financial Reporting* ("SFRS(I) 1-34"). Our responsibility is to express a conclusion on the interim combined financial statements based on our review.

Scope of Review

We conducted our review in accordance with Singapore Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim combined financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2018 and of its financial performance, changes in equity and its cash flows for the six-month period then ended in accordance with SFRS(I) 1-34.

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Independent auditor's report on review of interim combined financial statements
For the six-month period ended 30 June 2018**

Restriction on Distribution and Use

This report has been prepared solely for inclusion in the circular to the shareholders of Lereno Bio-Chem Ltd. to be issued in connection with the proposed acquisition of the entire issued and paid up share capital of the Company.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

Partner in charge: Adrian Koh

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Unaudited interim combined statements of comprehensive income
For the six-month period ended 30 June 2018**

		For six-month period ended 30 June	
	Note	2018	2017
		RM'000	RM'000
Revenue	4	106,390	78,124
Cost of sales		(91,687)	(65,119)
Gross profit		14,703	13,005
Other items of income			
Interest income from debt instruments		117	4
Other income	5	75	200
Other items of expense			
Administrative and general expenses		(8,267)	(7,884)
Selling and marketing expenses		(3,395)	(1,577)
Finance costs	6	(860)	(590)
Profit before tax	8	2,373	3,158
Income tax expense	9	(934)	(1,018)
Profit for the period		1,439	2,140
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(78)	(585)
Total comprehensive income for the period		1,361	1,555

The accompanying accounting policies and explanatory notes form an integral part of the interim combined financial statements.

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Unaudited interim combined statements of financial position
As at 30 June 2018**

	Note	30.6.2018 RM'000	31.12.2017 RM'000
Assets			
Non-current asset			
Property, plant and equipment	10	50,476	44,979
Current assets			
Inventories	12	70,640	30,526
Trade and other receivables	13	42,882	50,876
Other current assets	14	1,261	1,320
Cash and short-term deposits	15	11,527	12,484
		126,310	95,206
Total assets		176,786	140,185
Equity and liabilities			
Current liabilities			
Trade and other payables	16	66,776	48,071
Borrowings	17	51,432	40,210
Tax payable		1,630	1,712
		119,838	89,993
Net current assets		6,472	5,213
Non-current liabilities			
Borrowings	17	15,624	9,910
Deferred tax liabilities	18	1,005	1,324
		16,629	11,234
Total liabilities		136,467	101,227
Net assets		40,319	38,958
Equity attributable to owner of the Company			
Share capital	19	—*	—*
Retained earnings		26,222	24,783
Merger reserve	20	11,532	11,532
Foreign currency translation reserve	20	2,565	2,643
Total equity		40,319	38,958
Total equity and liabilities		176,786	140,185

* Less than RM1,000

The accompanying accounting policies and explanatory notes form an integral part of the interim combined financial statements.

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Unaudited interim combined statements of changes in equity
For the six-month period ended 30 June 2018**

	Share capital RM'000	Retained earnings RM'000	Merger reserve RM'000	Foreign currency translation reserve RM'000	Total RM'000
2018					
As at 1 January 2018 (as previously reported)	—*	25,211	11,532	2,643	39,386
Impact of adoption of SFRS(I) 15	—	(428)	—	—	(428)
As at 1 January 2018 (as restated)	—*	24,783	11,532	2,643	38,958
Profit for the period	—	1,439	—	—	1,439
<u>Other comprehensive income</u>					
Foreign currency translation	—	—	—	(78)	(78)
Total comprehensive income for the period	—	1,439	—	(78)	1,361
As at 30 June 2018	—*	26,222	11,532	2,565	40,319
2017					
As at 1 January 2017 (as previously reported)	—	22,381	11,532	3,865	37,778
Impact of adoption of SFRS(I) 15	—	(451)	—	—	(451)
As at 1 January 2017 (as restated)		21,930	11,532	3,865	37,327
Profit for the period (as previously reported)	—	1,888	—	—	1,888
Impact of adoption of SFRS(I) 15	—	252	—	—	252
Profit for the period (as restated)	—	2,140	—	—	2,140
<u>Other comprehensive income</u>					
Foreign currency translation	—	—	—	(585)	(585)
Total comprehensive income for the period	—	2,140	—	(585)	1,555
As at 30 June 2017	—	24,070	11,532	3,280	38,882

* Less than RM1,000

The accompanying accounting policies and explanatory notes form an integral part of the interim combined financial statements.

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Unaudited interim combined cash flow statements
For the six-month period ended 30 June 2018**

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Operating activities		
Profit before tax	2,373	3,158
Adjustments for:		
Impairment loss on trade receivables	12	—
Bad debts written off	46	—
Depreciation of property, plant and equipment	2,015	1,873
Interest expense	860	590
Gain on disposal of property, plant and equipment	(57)	—
Property, plant and equipment written off	2	—
Unrealised loss on foreign exchange	680	1,366
Interest income	(117)	(4)
Operating profit before working capital changes	5,814	6,983
Increase in inventories	(40,113)	(15,492)
Decrease/(increase) in receivables	8,539	(3,970)
Decrease in other current assets	53	1,127
Increase in payables	21,865	2,922
Cash flows used in operations	(3,842)	(8,430)
Interest paid	(860)	(590)
Taxes paid	(1,333)	(1,205)
Net cash used in operating activities	(6,035)	(10,225)
Investing activities		
Purchase of property, plant and equipment	(7,608)	(1,716)
Proceeds from disposal of property, plant and equipment	91	—
Interest received	117	4
Cash flows used in investing activities	(7,400)	(1,712)
Financing activities		
Repayment of obligations under finance leases	(146)	(144)
Placement of deposits pledged for security	3,649	—
Drawdown of term loans	5,948	—
Repayment of term loans	(2,038)	(806)
Drawdown of other short term borrowings	12,727	13,600
Dividends paid	(3,813)	(527)
Cash flows generated from financing activities	16,327	12,123
Net increase in cash and cash equivalents	2,892	186
Effect of exchange rate changes on cash and cash equivalents	(36)	(54)
Cash and cash equivalents at beginning of the financial periods	3,758	7,951
Cash and cash equivalents at end of the financial periods (Note 15)	6,614	8,083

The accompanying accounting policies and explanatory notes form an integral part of the interim combined financial statements.

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Notes to the unaudited interim combined financial statements
For the six-month period ended 30 June 2018**

1. Corporate information

1.1 *The Company*

Knit Textile and Apparel Pte. Ltd. (the "Company") is a private limited company incorporated and domiciled in Singapore.

The registered office and principal place of business of the Company is located at 50 Raffles Place, #06-00 Singapore Land Tower, Singapore 048623.

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

1.2 *The Proposed Restructuring*

On 27 September 2017, Lereno Bio-Chem Ltd. ("LBC") has entered into a conditional put and call option agreement (the "Agreement") with Mr. Lim Siau Hing @ Lim Kim Hoe (the "Vendor"), who is the Director of the Company for the proposed acquisition by LBC of the entire issued share capital of the Company at a purchase consideration of S\$26,400,000 (equivalent to RM80,120,700) (the "Proposed Acquisition"). The purchase consideration is to be fully satisfied by the allotment and issuance of an aggregate of 2,640,00,000 Consideration Shares to the Vendor at the pre-consolidation issue price of S\$0.01 (equivalent to RM0.03) each, in accordance with the terms and conditions of the Agreement.

As contemplated in the Agreement, for the purpose of the Proposed Acquisition, the Group will be formed through a restructuring (the "Proposed Restructuring"). The Vendor has undertaken to procure the Proposed Restructuring pursuant to which the Company will acquire, and directly or indirectly own, all of the issued and paid-up share capital of the following companies:

- Knit Textile Holdings Sdn. Bhd. ("KTH"), a company incorporated in Malaysia;
- Callisto Apparel Holdings Pte. Ltd., a company incorporated in Singapore;
- Moon Apparel Holdings Pte. Ltd., a company incorporated in Singapore;
- Knit Textiles Mfg. Sdn. Bhd. ("KTM"), a company incorporated in Malaysia;
- Ocean Art & Embellishment Sdn. Bhd., a company incorporated in Malaysia;
- Moon Apparel (Cambodia) Co., Ltd., a company incorporated in Cambodia;

**APPENDIX E: UNAUDITED INTERIM COMBINED FINANCIAL STATEMENTS
OF KNIT TEXTILE AND APPAREL PTE. LTD. AND ITS SUBSIDIARIES WITH
INDEPENDENT AUDITOR'S REPORT FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2018**

Knit Textile and Apparel Pte. Ltd. and its subsidiaries

**Notes to the unaudited interim combined financial statements
For the six-month period ended 30 June 2018**

1. Corporate information (cont'd)

1.2 *The Proposed Restructuring (cont'd)*

- Callisto Apparel (Cambodia) Co., Ltd., a company incorporated in Cambodia; and
- Xentika Limited ("Xentika"), a company incorporated in Seychelles.

Pursuant to the Proposed Restructuring, the Company will become the holding company of the Group.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The interim combined financial statements of the Group have been prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)"). With effect from 1 January 2018, the Group has applied SFRS(I), a new financial reporting framework identical to International Financial Reporting Standards

The interim combined financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The interim combined financial statements are presented in Ringgit Malaysia ("RM") and all values in the tables are rounded to the nearest thousand ("RM'000"), except when otherwise indicated.

2.2 *First-time adoption of SFRS(I)*

The interim combined financial statements for the period ended 30 June 2018 are the first set of financial statements the Group has prepared that comply with SFRS(I), together with the relevant comparable period data for the year ended 31 December 2017 and six-month period ended 30 June 2017, as described in the summary of significant accounting policies. Except for SFRS(I) 15, the adoption of SFRS(I) and the other new standards have no impact on the financial statements on initial adoption.

The effects of adoption of SFRS(I) 15 on the financial statements are as follows:

- Increase in revenue and profit by RM252,000 for the six-month period ended 30 June 2017;
- Decrease in total assets and decrease in net assets as at 1 January 2018 by RM428,000;

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2. Summary of significant accounting policies (cont'd)

2.2 First-time adoption of SFRS(I) (cont'd)

- Decrease in opening retained earnings as at 1 January 2017 by RM451,000 and total equity as at 30 June 2017 by RM199,000; and
- No impact on changes in cash flows and cash and cash equivalents.

The effects of adoption of SFRS(I) 15 on the financial statements are as follows:

Combined Statement of Financial Position as at 1 January 2018

	SFRS RM'000	Effect of transition to SFRS(I) RM'000	SFRS(I) RM'000
Assets			
Non-current asset			
Property, plant and equipment	44,979	–	44,979
Current assets			
Inventories	30,526	–	30,526
Trade and other receivables	51,304	(428)	50,876
Other current assets	1,320	–	1,320
Cash and short-term deposits	12,484	–	12,484
	95,634	(428)	95,206
Total assets	140,613	(428)	140,185
Equity and liabilities			
Current liabilities			
Trade and other payables	48,071	–	48,071
Borrowings	40,210	–	40,210
Tax payable	1,712	–	1,712
	89,993	–	89,993
Net current assets	5,641	(428)	5,213

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2. Summary of significant accounting policies (cont'd)

2.2 First-time adoption of SFRS(I) (cont'd)

The effects of adoption of SFRS(I) 15 on the financial statements are as follows: (cont'd)

	SFRS RM'000	Effect of transition to SFRS(I) RM'000	SFRS(I) RM'000
Non-current liabilities			
Borrowings	9,910	—	9,910
Deferred tax liabilities	1,324	—	1,324
	11,234	—	11,234
Total liabilities	101,227	—	101,227
Net assets	39,386	(428)	38,958
Equity attributable to the owner of the Company			
Share capital	—*	—	—*
Retained earnings	25,211	(428)	24,783
Merger reserve	11,532	—	11,532
Foreign currency translation reserve	2,643	—	2,643
Total equity	39,386	(428)	38,958
Total equity and liabilities	140,613	(428)	140,185

* Less than RM1,000

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2. Summary of significant accounting policies (cont'd)

2.2 First-time adoption of SFRS(I) (cont'd)

The effects of adoption of SFRS(I) 15 on the financial statements are as follows: (cont'd)

Combined Statement of Comprehensive Income for the financial period ended 30 June 2017

	SFRS	Effect of transition to SFRS(I)	SFRS(I)
	RM'000	RM'000	RM'000
Revenue	77,872	252	78,124
Cost of sales	(65,119)	–	(65,119)
Gross profit	12,753	252	13,005
Other items of income			
Interest income	4	–	4
Other income	200	–	200
Other items of expense			
Administrative and general expenses	(7,884)	–	(7,884)
Selling and marketing expenses	(1,577)	–	(1,577)
Finance costs	(590)	–	(590)
Profit before tax	2,906	252	3,158
Income tax expense	(1,018)	–	(1,018)
Profit for the period	1,888	252	2,140
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation	(585)	–	(585)
Total comprehensive income for the period	1,303	252	1,555

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2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
SFRS(I) INT 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
SFRS(I) 16 <i>Leases</i>	1 January 2019
SFRS(I) 9 Amendments to SFRS(I) 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Improvements to SFRS(I)s 2015-2017 Cycle	
– Amendments to SFRS(I) 1-12: <i>Income Taxes</i>	1 January 2019
– Amendments to SFRS(I) 1-23: <i>Borrowing Costs</i>	1 January 2019

Except for SFRS(I) 16, the directors expect that the adoption of the other standards above will have no material impact on the interim combined financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

SFRS(I) 16 *Leases*

SFRS(I) 16 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. The new leases standard is effective for annual periods beginning on or after 1 January 2019.

The Group has performed a preliminary impact assessment of the adoption of SFRS(I) 16 and expects that the adoption of SFRS(I) 16 will result in increase in total assets and total liabilities, earnings before interest, tax, depreciation and amortisation ("EBITDA") and gearing ratio.

The Group plans to adopt the new standard on the required effective date by applying SFRS(I) 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to SFRS(I) 16 and assessing the possible impact of adoption.

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2. Summary of significant accounting policies (cont'd)

2.4 *Basis of consolidation*

The interim combined financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the interim combined financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The interim combined financial statements of the Group for the financial period ended 30 June 2018 comprising the Company and its subsidiaries have been prepared in accordance with the pooling of interest method.

Business combinations

Business combinations involving entities under common control are accounted for by applying the pooling of interest method which involves the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the combined financial statements of the controlling holding company.
- No adjustments are made to reflect the fair values on the date of combination, or recognise any new assets or liabilities.
- No additional goodwill is recognised as a result of the combination.
- Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within the equity as merger reserve.
- The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparatives are restated to reflect the combination as if it had occurred from the beginning of the earliest period presented in the combined financial statements or from the date the entities had come under common control, if later.

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2. Summary of significant accounting policies (cont'd)

2.5 *Foreign currency*

The interim combined financial statements are presented in RM, which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset as follows:

Leasehold land	–	60 years
Buildings	–	50 years
Plant and machinery, factory fittings	–	10 years
Electrical installation	–	10 years
Office equipment, furniture and fittings, renovation and computers	–	3 to 20 years
Motor vehicles	–	5 years

Buildings under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

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2. Summary of significant accounting policies (cont'd)

2.6 *Property, plant and equipment (cont'd)*

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

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.8 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

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2. Summary of significant accounting policies (cont'd)

2.8 *Financial instruments (cont'd)*

(a) *Financial assets (cont'd)*

Initial recognition and measurement (cont'd)

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset.

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

De-recognition

A financial asset is de-recognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in profit or loss.

(b) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

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2. Summary of significant accounting policies (cont'd)

2.8 *Financial instruments (cont'd)*

(b) *Financial liabilities (cont'd)*

Initial recognition and measurement (cont'd)

All financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are de-recognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On de-recognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

2.9 *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

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2. Summary of significant accounting policies (cont'd)

2.9 *Impairment of financial assets (cont'd)*

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.10 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand and short-term fixed deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.11 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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

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2. Summary of significant accounting policies (cont'd)

2.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.13 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.14 Employee benefits

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company and the subsidiaries incorporated in Malaysia make contributions to the Central Provident Fund scheme in Singapore and the Employees Provident Fund in Malaysia respectively. These contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

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2. Summary of significant accounting policies (cont'd)

2.15 Leases

As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

As lessor

Leases in which the Group does not transfer substantially all the risk and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.16(c). Contingent rents are recognised as revenue in the period in which they are earned.

2.16 Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

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2. Summary of significant accounting policies (cont'd)

2.16 Revenue (cont'd)

(a) Sales of goods

The Group is in a business of manufacturing, selling and designing garments, fibre, leather and textile goods.

Revenue is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied. The goods are often sold with certain rebates and discounts based on the aggregate sales over a period of time.

The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of the estimated rebates and discounts. Based on the Group's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting date, the Group updates its assessment of the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained, and its estimate of contract liability. The corresponding amounts are adjusted against revenue in the period in which the transaction price changes.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

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2. Summary of significant accounting policies (cont'd)

2.17 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investment in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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2. Summary of significant accounting policies (cont'd)

2.17 Taxes (cont'd)

(b) Deferred tax (cont'd)

- In respect of deductible temporary differences associated with investment in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the amount of GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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2. Summary of significant accounting policies (cont'd)

2.18 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

3. Significant accounting judgements and estimates

The preparation of the Group's interim combined financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of the revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. Management is of the opinion that there is no significant judgement made in applying accounting policies and no estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

4. Revenue

Revenue represents the invoiced value of sales of goods, net of discounts and returns.

5. Other income

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Gain on disposal of property, plant and equipment	57	—
Rental income	13	13
Subcontract income	2	180
Sundry income	3	7
	<hr/>	<hr/>
	75	200
	<hr/>	<hr/>

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6. Finance costs

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Interest expense on:		
– Bank loans and overdrafts	147	124
– Bankers' acceptance	280	205
– Obligations under finance leases	18	18
– Trust receipts and foreign bill of exchange	415	243
	<u>860</u>	<u>590</u>

7. Employee benefits

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Salaries and bonuses	18,159	13,675
Employers' contribution to defined contribution plans	290	281
Other short-term benefits	1,490	546
	<u>19,939</u>	<u>14,502</u>

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8. Profit before tax

Profit before tax is stated after charging/(crediting):

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Impairment loss on trade receivables	12	–
Bad debts written off	46	–
Depreciation of property, plant and equipment (Note 10)	2,015	1,873
Rental of machinery	11	9
Foreign exchange loss, net	1,081	1,366
Property, plant and equipment written off	2	–
Rental of premises	611	702
Employee benefits (Note 7)	19,939	14,502

9. Income tax expense

Major components of income tax expense

The major components of income tax expense for the six-month period ended 30 June 2018 and 2017 are:

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Current income tax		
– Current income tax	1,253	1,285
Deferred income tax (Note 18):		
– Relating to origination and reversal of temporary differences	(317)	(344)
– (Over)/under provision in respect of previous years	(2)	77
	(319)	(267)
Income tax expense recognised in profit or loss	934	1,018

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9. Income tax expense (cont'd)

Relationship between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rates for the six-month periods ended 30 June 2018 and 2017 are as follows:

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Profit before tax	2,373	3,158
Tax at Malaysia statutory tax rate of 24% (2017: 24%)	569	758
Adjustments:		
Differences in tax rates	245	23
Income not subject to tax	(400)	(210)
Non-deductible expenses	193	103
Deferred tax assets not recognised	329	267
(Over)/under provision in respect of previous years	(2)	77
Income tax expense recognised in profit or loss	934	1,018

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10. Property, plant and equipment

	*Land and buildings RM'000	Plant and machinery and factory fittings RM'000	Electrical installation RM'000	Office equipment, furniture and fittings, renovation and computers RM'000	Motor vehicles RM'000	Total RM'000
Cost						
At 1 January 2018	30,203	23,822	3,596	11,219	2,799	71,639
Additions	3,787	3,604	–	217	–	7,608
Disposals	–	(1,274)	–	(2)	–	(1,276)
Written off	–	(2)	–	–	–	(2)
Exchange differences	–	(59)	(11)	(40)	(2)	(112)
At 30 June 2018	33,990	26,091	3,585	11,394	2,797	77,857
Accumulated depreciation						
At 1 January 2018	2,493	12,539	2,537	7,617	1,474	26,660
Charge for the period	254	1,029	113	399	220	2,015
Disposals	–	(1,240)	–	(2)	–	(1,242)
Exchange differences	–	(29)	(4)	(19)	–	(52)
At 30 June 2018	2,747	12,299	2,646	7,995	1,694	27,381
Net carrying amount						
At 30 June 2018	31,243	13,792	939	3,399	1,103	50,476

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10. Property, plant and equipment (cont'd)

	*Land and buildings	Plant and machinery and factory fittings	Electrical installation	Office equipment, furniture and fittings, renovation and computers	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At 1 January 2017	14,580	24,265	3,759	11,614	2,573	56,791
Additions	15,773	543	—	207	737	17,260
Disposals	(150)	—	—	—	(471)	(621)
Exchange differences	—	(986)	(163)	(602)	(40)	(1,791)
At 31 December 2017	30,203	23,822	3,596	11,219	2,799	71,639
Accumulated depreciation						
At 1 January 2017	2,207	10,989	2,367	7,130	1,358	24,051
Charge for the year	313	1,905	240	832	480	3,770
Disposals	(27)	—	—	—	(348)	(375)
Exchange differences	—	(355)	(70)	(345)	(16)	(786)
At 31 December 2017	2,493	12,539	2,537	7,617	1,474	26,660
Net carrying amount						
At 31 December 2017	27,710	11,283	1,059	3,602	1,325	44,979

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10. Property, plant and equipment (cont'd)

* The details of land and buildings are as follows:

	Freehold land	Long term leasehold land	Buildings	Buildings under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
At 1 January 2018	6,790	5,300	8,950	9,163	30,203
Additions	–	–	95	3,692	3,787
At 30 June 2018	6,790	5,300	9,045	12,855	33,990
Accumulated depreciation					
At January 2018	–	560	1,933	–	2,493
Charge for the period	–	132	122	–	254
At 30 June 2018	–	692	2,055	–	2,747
Net carrying amount					
At 30 June 2018	6,790	4,608	6,990	12,855	31,243

	Freehold land	Long term leasehold land	Buildings	Buildings under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
At 1 January 2017	225	5,300	9,055	–	14,580
Additions	6,610	–	–	9,163	15,773
Disposals	(45)	–	(105)	–	(150)
At 31 December 2017	6,790	5,300	8,950	9,163	30,203
Accumulated depreciation					
At January 2017	–	491	1,716	–	2,207
Charge for the year	–	69	244	–	313
Disposals	–	–	(27)	–	(27)
At 31 December 2017	–	560	1,933	–	2,493
Net carrying amount					
At 31 December 2017	6,790	4,740	7,017	9,163	27,710

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10. Property, plant and equipment (cont'd)

(a) Assets held under finance leases

During the financial period/year, the Group acquired property, plant and equipment with an aggregate cost of RM Nil (31.12.2017: RM454,000) by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to RM7,608,000 (31.12.2017: RM16,806,000).

The carrying amount of motor vehicles held under finance leases at the end of the reporting period were RM935,000 (31.12.2017: RM1,030,000) respectively.

Leased assets are pledged as security for the related finance lease liabilities.

(b) In addition to assets held under finance leases, the net book value of property, plant and equipment pledged to banks for borrowings as referred to in Note 17 are as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
Freehold land	6,790	6,790
Leasehold land	3,434	3,468
Buildings	6,990	7,017
Buildings under construction	12,855	9,163
	30,069	26,438
	30,069	26,438

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11. Subsidiaries

The Group has the following subsidiaries:

Name	Country of incorporation	Principal activities	Equity interest held	
			30.6.2018	31.12.2017
			%	%
Held by the Company:				
Knit Textile Holdings Sdn. Bhd. ⁽¹⁾	Malaysia	(i) Buying, selling, renting and operating of self-owned or leased real estate – land; (ii) Manufacture of articles of any textile materials, including knitted or crocheted fabrics; and (iii) Activities of holding companies	100	–
Xentika Limited ⁽²⁾	Seychelles	International business	100	100
Callisto Apparel Holdings Pte. Ltd. ⁽³⁾	Singapore	Investment holding	100	100
Moon Apparel Holdings Pte. Ltd. ⁽³⁾	Singapore	Investment holding	100	100
Held through subsidiaries:				
Knit Textiles Mfg. Sdn. Bhd. ⁽¹⁾	Malaysia	Apparel manufacturing	100	100
Ocean Art & Embellishment Sdn. Bhd. ⁽¹⁾	Malaysia	Operation of a fabric dyeing and finishing plant	100	100
Callisto Apparel (Cambodia) Co., Ltd. ⁽²⁾	Cambodia	Apparel manufacturing	100	100
Moon Apparel (Cambodia) Co., Ltd. ⁽²⁾	Cambodia	Apparel manufacturing	100	100

(1) Audited by member firm of EY Global in Malaysia

(2) Audited by member firm of EY Global in Malaysia, for consolidation purposes only

(3) Not required to be audited

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12. Inventories

	30.6.2018	31.12.2017
	RM'000	RM'000
Statement of financial position:		
At cost:		
Raw materials	26,395	16,619
Work-in-progress	32,756	10,127
Finished goods	11,489	3,780
	<u>70,640</u>	<u>30,526</u>
Statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	<u>55,312</u>	<u>132,125</u>

13. Trade and other receivables

	30.6.2018	31.12.2017
	RM'000	RM'000
Trade receivables		
Trade receivables	38,718	46,696
Less: Allowance for impairment	(12)	–
Trade receivables, net	<u>38,706</u>	<u>46,696</u>
Other receivables		
Deposits	1,944	1,932
Goods and Services tax	1,461	1,616
Sundry receivables	771	632
Other receivables, net	<u>4,176</u>	<u>4,180</u>
Total trade and other receivables	42,882	50,876
Add: Cash and bank balances (Note 15)	11,527	12,484
Less: Goods and Services tax	(1,461)	(1,616)
Less: Tax recoverable	–	(1)
Total financial assets carried at amortised cost	<u>52,948</u>	<u>61,743</u>

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13. Trade and other receivables (cont'd)

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days (31.12.2017: 30 to 90 days) terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables denominated in foreign currency at 31 December are as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
United States Dollar	25,569	47,124

Receivables that are neither past due nor impaired

The Group has trade receivables amounting to RM565,000 (31.12.2017: RM6,788,000) that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
<u>Trade receivables past due but not impaired:</u>		
Lesser than 60 days	531	6,592
61 – 120 days	–	126
More than 120 days	34	70
	565	6,788

Receivables that are impaired

The movement in provision for impairment is as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
At 1 January	–	2,203
Allowance for impairment	12	–
Written off	–	(2,203)
At 30 June/31 December	12	–

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14. Other current assets

	30.6.2018	31.12.2017
	RM'000	RM'000
Prepayments	517	484
Advance payment to suppliers	744	836
	1,261	1,320

15. Cash and short-term deposits

	30.6.2018	31.12.2017
	RM'000	RM'000
Cash on hand and at banks	6,846	4,154
Deposits with licensed banks	4,681	8,330
Cash and short-term deposits	11,527	12,484
Less: Deposits with licensed banks	(4,681)	(8,330)
Less: Bank overdrafts (Note 17)	(232)	(396)
Cash and cash equivalents	6,614	3,758

Deposits with licensed banks of the Group amounting to RM3,292,000 (31.12.2017: RM4,614,000) are registered in the name of a director who held in trust for the Company.

Deposits with licensed banks are pledged to banks for banking facilities granted to the Group as disclosed in Note 17.

At the end of the reporting period, the weighted average effective interest rate and maturity of deposits with licensed banks of the Group were 2.95% per annum and 180 days (31.12.2017: 2.87% per annum and 180 days) respectively.

Cash and short-term deposits denominated in foreign currency as at 31 December are as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
United States Dollar	5,427	1,391

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16. Trade and other payables

	30.6.2018	31.12.2017
	RM'000	RM'000
Trade payables		
Third parties	46,556	27,171
Other payables		
Amounts due to directors/shareholders	8,701	10,752
Other payables and accruals	11,519	10,148
	20,220	20,900
Total trade and other payables	66,776	48,071
Add: Loans and borrowings (Note 17)	67,056	50,120
Total financial liabilities carried at amortised cost	133,832	98,191

Trade payables/other payables

These amounts are non-interest bearing. Trade and other payables are normally settled on 30 to 90 day terms (31.12.2017: 30 to 60 days).

Trade payables denominated in foreign currencies as at 31 December are as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
United States Dollar	39,127	26,741
Singapore Dollar	30	368

Amounts due to directors/shareholders

Amounts due to directors/shareholders are unsecured and non-interest bearing. Included in amounts due to directors/shareholders is an amount of dividend payable of RM5,135,000 (31.12.2017: RM8,948,000).

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16. Trade and other payables (cont'd)

Amounts due to directors/shareholders (cont'd)

The repayment terms of the amounts due to directors/shareholders are as follows:

- dividend payable of RM2,135,000 are to be settled by 31 December 2018;
- dividend payable of RM3,000,000 are to be settled by 31 March 2019; and
- the remaining balances are to be settled in full or in part from time to time, at such time or times, as may be agreed by the Group and LBC, and subject always to the New Audit Committee of LBC being satisfied that such payments will not adversely affect the ongoing working capital or liquidity requirements and the financial position of the Group.

17. Borrowings

	30.6.2018	31.12.2017
	RM'000	RM'000
Short term borrowings – secured		
Trust receipts	29,967	20,799
Bankers' acceptances	12,237	7,969
Bank overdrafts (Note 15)	232	396
Invoice financing	5,828	5,947
RM loan at COF + 2.0% p.a.	163	217
RM loan at KLIBOR + 1.75% p.a.	–	2,220
USD loan at COF + 2.75% p.a.	1,908	1,926
5% p.a. fixed rate RM loan	438	439
RM loan at BLR + 2.0%	368	–
Obligation under finance leases (Note 23)	291	297
	51,432	40,210

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17. Borrowings (cont'd)

Short term borrowings have maturity of less than 12 months or are expected to be repaid on demand.

	Maturity	30.6.2018 RM'000	31.12.2017 RM'000
Long term borrowings – secured			
5% p.a. fixed rate RM loan	2037	13,709	9,369
RM loan at BLR + 2.0%	2037	1,514	–
Obligation under finance leases (Note 23)	2019 – 2022	401	541
		15,624	9,910
Total borrowings			
Trust receipts		29,967	20,799
Bankers' acceptances		12,237	7,969
Bank overdrafts		232	396
Invoice financing		5,828	5,947
Bank loans		18,100	14,171
Obligation under finance leases (Note 23)		692	838
		67,056	50,120
Maturity of borrowings (excluding finance lease payables)			
Not later than one year		51,141	39,913
Later than one year but not later than five years		3,548	1,987
Later than five years		11,675	7,382
		66,364	49,282

* BLR: Base lending rate

* COF: Cost of fund

* KLIBOR: Kuala Lumpur Inter Bank Offer Rate

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17. Borrowings (cont'd)

As at 30 June 2018 and 31 December 2017, a subsidiary within the Group did not comply with certain financial covenants stipulated in the banking facilities letters. Accordingly, loans amounted to RM859,000 and RM4,464,000 as at 30 June 2018 and 31 December 2017 respectively, became repayable on demand. The non-current portion of the loans have been reclassified as current. As at date of the report of this interim combined financial statements, the bank has not recalled the loans.

The secured borrowings of the Group are secured by legal charges over the freehold land, leasehold land, buildings and deposits with licensed banks of the Group as disclosed in Note 10 and Note 15 respectively.

Obligation under finance leases

The Group has finance leases with certain items of plant and equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
Minimum finance lease payments:		
Not later than one year	317	330
Later than one year but not later than 5 years	420	571
	<hr/>	<hr/>
Total minimum lease payments	737	901
Less: Future finance charges	(45)	(63)
	<hr/>	<hr/>
Present value of minimum lease payments	692	838
	<hr/>	<hr/>
Analysis of present value of minimum lease payments:		
Not later than one year	291	297
Later than one year but not later than 5 years	401	541
	<hr/>	<hr/>
	692	838
	<hr/>	<hr/>

The finance lease payables bore interest at reporting date of between 2.41% and 2.84% (31.12.2017: 2.41% and 2.84%) per annum.

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17. Borrowings (cont'd)

Bank overdrafts

Bank overdrafts are denominated in RM, bear interest at BLR + 1.5% (31.12.2017: BLR + 1.5%) per annum.

The weighted average effective interest rates at the end of reporting period for borrowings, excluding hire purchase payables, were as follows:

	30.6.2018	31.12.2017
	%	%
Trusts receipts	1.27	1.48
Bankers' acceptances	4.90	4.82
Invoice financing	4.08	3.07
Term loans	4.93	4.95

A reconciliation of liabilities arising from financing activities is as follows:

			Non-cash changes		
	31.12.2017	Cash	Foreign	Other	30.6.2018
	RM'000	flows	exchange	RM'000	RM'000
		RM'000	movement		
			RM'000		
Obligations under finance leases					
– current	297	(146)	–	140	291
– non-current	541	–	–	(140)	401
Bank loan					
– current	4,802	(2,038)	19	94	2,877
– non-current	9,369	5,948	–	(94)	15,223
Other short-term borrowings	34,715	12,727	590	–	48,032
	49,724	16,491	609	–	66,824

The 'other' column relates to reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time.

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18. Deferred tax liabilities

	30.6.2018	31.12.2017
	RM'000	RM'000
At 1 January	1,324	1,169
Recognised in profit or loss (Note 9)	(319)	155
At 30 June/31 December	<u>1,005</u>	<u>1,324</u>

The components and movements of deferred tax liabilities and assets during the financial year/period prior to offsetting are as follows:

	Accelerated capital allowances	Others	Net
	RM'000	RM'000	RM'000
At 1 January 2017	1,347	(178)	1,169
Recognised in profit or loss	(31)	186	155
At 31 December 2017	1,316	8	1,324
Recognised in profit or loss	130	(449)	(319)
At 30 June 2018	<u>1,446</u>	<u>(441)</u>	<u>1,005</u>

Deferred tax assets have not been recognised in respect of the following items:

	30.6.2018	31.12.2017
	RM'000	RM'000
Unutilised tax losses	8,522	5,969
Unabsorbed capital allowances	<u>483</u>	<u>483</u>

Unrecognised temporary differences relating to investment in subsidiaries

At the end of the reporting period, no deferred tax liability (31.12.2017: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

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19. Share capital

	Number of shares		Amount	
	30.6.2018	31.12.2017	30.6.2018 RM'000	31.12.2017 RM'000
Issued and fully paid ordinary shares				
At 30 June/31 December	2	2	—*	—*

* Less than RM1,000

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

20. Reserves

Merger reserve

Merger reserve comprises the share capital of the subsidiaries under common control accounted for by applying the pooling of interest method, as described in Note 2.4 to the interim combined financial statements.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the interim combined financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

21. Significant related party transactions

(a) Sale and purchase of goods and services

The Group enters into transactions with related parties in the normal course of business and at arm's length. Related parties include subsidiaries of the Group and key management personnel and their related parties.

Apart from related party information disclosed elsewhere in the interim combined financial statements, there was no significant transaction between the Company and related parties during the financial periods ended 30 June 2018 and 30 June 2017.

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21. Significant related party transactions (cont'd)

(b) Compensation of key management personnel

	For six-month period ended 30 June	
	2018	2017
	RM'000	RM'000
Short term employee benefits	239	192
Employers' contribution to defined contribution schemes	15	26
	<u>254</u>	<u>218</u>
Comprise amounts paid to:		
– Directors of the Company	<u>254</u>	<u>218</u>

22. Commitments

Operating lease commitments – as lessee

The Group has entered into a non-cancellable operating lease agreement for the use of building. The lease is for a period of 5 years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

Minimum lease payments recognised as an expense in profit or loss for the financial period ended 30 June 2018 amounted to RM611,000 (30 June 2017: RM702,000).

The future minimum lease payments under non-cancellable operating leases contracted for as at the end of the reporting period but not recognised as liabilities are as follows:

	30.6.2018	31.12.2017
	RM'000	RM'000
Not later than one year	1,195	1,258
Later than one year but not later five years	327	769
	<u>1,522</u>	<u>2,027</u>

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23. Fair value of assets and liabilities

(a) *Fair value hierarchy*

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or the liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) *Assets and liabilities that are not carried at fair value but whose carrying amounts are reasonable approximation of fair value*

Trade and other receivables (Note 13), cash and short-term deposits (Note 15), borrowings (Note 17) and trade and other payables (Note 16)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

Borrowings – non-current (Note 17)

The carrying amount of the non-current fixed rate loans are reasonable approximation of fair value as the fixed interest rate approximates the market lending rate at the end of the reporting period.

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24. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increase credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 180 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the company compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- Actual or expected significant changes in the operating results of the borrower
- Significant increases in credit risk on other financial instruments of the same borrower

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24. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 180 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group's trade and other receivables, which include deposits and sundry receivables are subject to SFRS(I) 9 expected credit loss model.

Trade receivables

The Group applies the simplified approach to providing for expected prescribed by SFRS(I) 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group has determined that the expected loss rate based on both current and forward looking information is negligible as the trade receivables are mainly amounts owing from established multi-national corporations with good credit ratings.

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24. Financial risk management objectives and policies (cont'd)

Other receivables

Other receivables comprises deposits and sundry receivables. Other receivables are considered to be low risk, and the loss allowance is determined at an amount equal to 12-month ECL. In deriving at the 12-month ECL, the Group has considered historical loss rates for each category of customers and adjusts for forward looking macroeconomic data. Based on the Group's assessment, the 12-month ECL is Nil.

Exposure to credit risk

At the reporting date, the Group's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statement of financial position, with positive fair values.
- Information regarding credit enhancements for trade and other receivables is disclosed in Note 13.

Credit risk concentration profile

At the reporting date, approximately 88% (31.12.2017: 75%) of the Group's trade receivables were due from 4 (31.12.2017: 4) major customers.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 13. Deposits with banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 13.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

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24. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	One year or less RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
30 June 2018				
Financial liabilities:				
Trade and other payables	66,776	—	—	66,776
Loans and borrowings	51,441	6,733	16,804	74,978
Total undiscounted financial liabilities	118,217	6,733	16,804	141,754
31 December 2017				
Financial liabilities:				
Trade and other payables	48,071	—	—	48,071
Loans and borrowings	41,413	5,225	7,991	54,629
Total undiscounted financial liabilities	89,484	5,225	7,991	102,700

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24. Financial risk management objectives and policies (cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from their loans and borrowings. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

Sensitivity analysis for interest rate risk

During the financial period, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the effect would be immaterial to the Group's profit net of tax. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observable market environment.

Foreign currency risk

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

The Group is exposed to transactional currency risk primarily respective through purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The currency giving rise to this risk are primarily United States Dollars ("USD") and Singapore Dollars ("SGD"). Such transactions are kept to an acceptable level.

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24. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the USD against the functional currency of the Group, with all other variables held constant.

	30.6.2018	31.12.2017
	RM'000	RM'000
USD/RM		
– strengthen by 5% (31.12.2017: 5%)	(2,181)	(373)
– weaken by 5% (31.12.2017: 5%)	2,181	373
SGD/RM		
– strengthen by 5% (31.12.2017: 5%)	(15)	(18)
– weaken by 5% (31.12.2017: 5%)	15	18

25. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial period ended 30 June 2018 and financial year ended 31 December 2017.

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25. Capital management (cont'd)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables, less cash and short-term deposits. Capital includes equity attributable to the owners of the Company.

	Note	30.6.2018	31.12.2017
		RM'000	RM'000
Trade and other payables	16	66,776	48,071
Loans and borrowings	17	67,056	50,120
Less: Cash and short-term deposits	15	(11,527)	(12,484)
Net debts		122,305	85,707
Equity attributable to equity holders of the Company, representing total capital		40,319	38,958
Gearing ratio		3.03	2.20

26. Authorisation of interim combined financial statements for issue

The interim combined financial statements for the six-month period ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 21 December 2018.

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**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL INFORMATION OF THE ENLARGED GROUP FOR
THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 AND
THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

21 December 2018

The Board of Directors
Lereno Bio-Chem Ltd.
80 Robinson Road #02-00
Singapore 068898

Report on the Compilation of Unaudited Pro Forma Consolidated Financial Information of Lereno-Bio Chem Ltd. and its subsidiaries for the year ended 31 December 2017 and the six-month period ended 30 June 2018 included in the circular to shareholders of Lereno Bio-Chem Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma consolidated financial information of Lereno Bio-Chem Ltd. (the “Company”) and the Target Group (collectively, the “Enlarged Group”) in connection with the Company’s proposed acquisition of the entire paid-up and issued share capital of Knit Textile and Apparel Pte. Ltd. (the “Target Company”) (the “Proposed Acquisition”). The Target Group consists of the Target Company and its subsidiaries (collectively, the “Target Group”). The unaudited pro forma consolidated financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2017 and 30 June 2018, the unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2017 and the six-month period ended 30 June 2018, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2017 and the six-month period ended 30 June 2018, and related notes as set out on pages F-5 to F-25 of the Circular issued by the Company. The applicable criteria on the basis of which the directors of the Company has compiled the unaudited pro forma consolidated financial information are described in Note 5 of the unaudited pro forma consolidated financial information.

The pro forma consolidated financial information has been compiled by the directors of the Company to illustrate the impact of the event or transaction set out in Note 3 on the Enlarged Group’s consolidated financial position as at 31 December 2017 and 30 June 2018 as if the event or transaction had taken place at 31 December 2017 and 30 June 2018 respectively, its consolidated financial performance and cash flows for the year ended 31 December 2017 and six-month period ended 30 June 2018 as if the event or transaction had taken place at 1 January 2017.

As part of this process, information about the Enlarged Group’s consolidated financial position as at 31 December 2017 and 30 June 2018, consolidated financial performance and consolidated cash flows for the year ended 31 December 2017 and the six-month period ended 30 June 2018 has been extracted by the directors of the Company from the audited combined financial statements of the Target Group for the year ended 31 December 2017 and the unaudited combined financial statements of the Target Group for the six-month period ended 30 June 2018.

Directors’ Responsibility for the Unaudited Pro Forma Consolidated Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma consolidated financial information on the basis of the applicable criteria described in Note 5 of the unaudited pro forma consolidated financial information.

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Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Singapore Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion about whether the unaudited pro forma consolidated financial information has been compiled, in all material respects, by the directors of the Company on the basis of the applicable criteria described in Note 5 of the unaudited pro forma consolidated financial information.

We conducted our engagement in accordance with Singapore Standard on Assurance Engagements (SSAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Institute of Singapore Chartered Accountants. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether directors of the Company have compiled, in all material respects, the unaudited pro forma consolidated financial information on the basis of the applicable criteria described in Note 5 of the unaudited pro forma consolidated financial information.

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

The purpose of unaudited pro forma consolidated financial information included in the Circular to the shareholders is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2017 and 30 June 2018 would have been as presented.

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THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 AND
THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

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

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

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

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

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

Opinion

In our opinion:

- (a) The unaudited pro forma consolidated financial information has been compiled:
 - (i) in a manner consistent with the accounting policies adopted by the Enlarged Group, which are in accordance with Singapore Financial Reporting Standards (International);
 - (ii) on the basis of the applicable criteria stated in Note 5 of the unaudited pro forma consolidated financial information; and
- (b) each material adjustment made to the information used in the preparation of the unaudited pro forma consolidated financial information is appropriate for the purpose of preparing such unaudited financial information.

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Restriction on Distribution and Use

This report has been prepared solely for inclusion in the Circular to shareholders of the Company to be issued in connection with the Proposed Acquisition and should not be used for any other purpose.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

Partner in charge: Adrian Koh

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
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THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH PERIOD ENDED
30 JUNE 2018

	For the year ended 31 December 2017 RM'000	For the six-month period ended 30 June 2018 RM'000
Revenue	218,301	106,390
Cost of sales	(182,459)	(91,687)
Gross profit	35,842	14,703
Other items of income		
Interest income	251	117
Other income	1,492	75
Administrative and general expenses	(51,468)	(8,947)
Selling and marketing expenses	(7,272)	(3,395)
Finance costs	(1,522)	(860)
(Loss)/profit before tax	(22,677)	1,693
Income tax expense	(3,877)	(934)
(Loss)/profit for the year/period	(26,554)	759
Other comprehensive income		
<i>Items that may be reclassified subsequent to profit or loss</i>		
Foreign currency translation	(1,222)	(78)
Total comprehensive income for the year/period	(27,776)	681

The accompanying accounting policies and explanatory notes form an integral part of the financial statements

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
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**LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017 AND 30 JUNE 2018**

	31 December 2017 RM'000	30 June 2018 RM'000
Assets		
Non-current asset		
Property, plant and equipment	44,979	50,476
Current assets		
Inventories	30,526	70,640
Trade and other receivables	51,304	42,882
Other current assets	1,320	1,261
Cash and short-term deposits	12,484	11,527
	95,634	126,310
Total assets	140,613	176,786
Equity and liabilities		
Current liabilities		
Trade and other payables	48,071	66,776
Borrowings	40,210	51,432
Tax payable	1,712	1,630
	89,993	119,838
Net current assets	5,641	6,472
Non-current liabilities		
Borrowings	9,910	15,624
Deferred tax liabilities	1,324	1,005
	11,234	16,629
Total liabilities	101,227	136,467
Net assets	39,386	40,319
Equity attributable to owner of the Company		
Share capital	36,842	49,485
Accumulated losses	(99)	(11,731)
Foreign currency translation reserve	2,643	2,565
Total equity	39,386	40,319
Total equity and liabilities	140,613	176,786

The accompanying accounting policies and explanatory notes form an integral part of the financial statements

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**LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH PERIOD ENDED
30 JUNE 2018**

	For the year ended 31 December 2017 RM'000	For the six-month period ended 30 June 2018 RM'000
Operating activities		
(Loss)/profit before tax	(22,677)	1,693
Adjustments for:		
Allowance for impairment of other receivables	–	12
Bad debts written off	27	46
Depreciation of property, plant and equipment	3,770	2,015
Interest expense	1,522	860
Gain on disposal of property, plant and equipment	(204)	(57)
Property, plant and equipment written off	–	2
Unrealised (gain)/loss on foreign exchange	(217)	680
Interest income	(251)	(117)
Share-based payment in relation to stamp duty	164	–
Listing expense	34,398	–
Operating profit before working capital changes	16,532	5,134
Increase in inventories	(5,099)	(40,113)
(Increase)/decrease in receivables	(31,115)	8,539
Decrease in other current assets	154	53
Increase in payables	18,242	22,545
Cash flows used in operations	(1,286)	(3,842)
Interest paid	(1,522)	(860)
Taxes paid	(2,746)	(1,333)
Net cash used in operating activities	(5,554)	(6,035)
Investing activities		
Purchase of property, plant and equipment	(16,806)	(7,608)
Proceeds from disposal of property, plant and equipment	450	91
Interest received	251	117
Cash flows used in investing activities	(16,105)	(7,400)
Financing activities		
Repayment of obligations under finance leases	(263)	(146)
(Placement)/refund of deposits pledged for security	(239)	3,649
Drawdown of term loans	9,936	5,948
Repayment of term loans	(1,824)	(2,038)
Drawdown of other short term borrowings	11,526	12,727
Dividends paid	(1,424)	(3,813)
Cash flows generated from financing activities	17,712	16,327
Net (decrease)/increase in cash and cash equivalents	(3,947)	2,892
Effect of exchange rate changes on cash and cash equivalents	(246)	(36)
Cash and cash equivalents at beginning of the year/period	7,951	3,758
Cash and cash equivalents at end of the year/period	3,758	6,614

The accompanying accounting policies and explanatory notes form an integral part of the financial statements

APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF THE ENLARGED GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

These selective notes form an integral part of and should be read in conjunction with the accompanying unaudited pro forma consolidated financial information.

1. General

The unaudited pro forma consolidated financial information has been prepared for inclusion in the circular to shareholders of Lereno Bio-Chem Ltd. (the “Company”) (the “Circular”) in connection with the proposed acquisition by the Company of the entire paid-up and issued share capital of Knit Textile and Apparel Pte. Ltd. (the “Target Company”). The Target Group consists of the Target Company and its subsidiaries (the “Target Group”). The Company and the Target Group are collectively known as the “Enlarged Group”.

2. Corporate information

Lereno Bio-Chem Ltd. is a public limited liability company incorporated and domiciled in Singapore and is listed on the Catalist Board of the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office and principal place of business of the Company is located at 80 Robinson Road #02-00, Singapore 068898.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries in the Enlarged Group are as disclosed in Note 4.

3. The Proposed Acquisition and the Proposed Restructuring Exercise

The Proposed Acquisition

On 5 September 2017, the Target Company was incorporated in Singapore with an issued and paid-up share capital of S\$2 comprising 2 Target Shares. Mr. Lim Siau Hing @ Lim Kim Hoe (the “Vendor”) was the legal and beneficial owner of the 2 issued Target Shares.

On 27 September 2017, the Company has entered into a conditional put and call option agreement (the “Option Agreement”) with Mr. Lim Siau Hing @ Lim Kim Hoe (the “Vendor”), for the proposed acquisition by the Company of the entire paid-up and issued share capital of the Target Company at a purchase consideration of S\$26,400,000 (equivalent to RM 80,120,700) (the “Proposed Acquisition”). The purchase consideration is to be fully satisfied by the allotment and issuance of an aggregate of 2,640,000,000 Consideration Shares to the Vendor at the pre-consolidation issue price of S\$0.01 (equivalent to RM0.03) each, in accordance with the terms and conditions of the Option Agreement. To facilitate the Proposed Acquisition, the Company has entered into a sale and purchase agreement dated 21 December 2018 for the sale of all the issued shares in the capital of MAE Engineers Pte. Ltd. to the controlling shareholder of the Company, Mr Ong Puay Koon, for a nominal consideration of S\$1.00 (equivalent to RM 3.00).

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3. The Proposed Acquisition and the Proposed Restructuring Exercise (cont'd)

The Proposed Restructuring Exercise

As contemplated in the Option Agreement, for the purpose of the Proposed Acquisition, the Target Group will be formed through a restructuring (the “Proposed Restructuring Exercise”). The Vendor has undertaken to procure the Proposed Restructuring Exercise pursuant to which the Target Company will acquire, and directly or indirectly own, all of the issued and paid-up share capital of the following companies:

- Knit Textile Holdings Sdn. Bhd.
- Callisto Apparel Holdings Pte. Ltd.
- Moon Apparel Holdings Pte. Ltd.
- Knit Textiles Mfg. Sdn. Bhd.
- Ocean Art & Embellishment Sdn. Bhd.
- Moon Apparel (Cambodia) Co., Ltd.
- Callisto Apparel (Cambodia) Co., Ltd.
- Xentika Limited

(Collectively, the Target Subsidiaries)

The Target Company will directly or indirectly acquire 100% of the ordinary shares in each of the Target Subsidiaries from the Vendor and his nominees at a consideration which is determined based on the share capital of each of the Target Subsidiaries. The aggregate consideration will be fully satisfied by the allotment and issuance of a total of 5,400,010 Target Shares which for the purpose of the unaudited pro forma consolidated financial information, assumed to be RM11,532,000.

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4. The Enlarged Group

Pursuant to the Proposed Restructuring Exercise, the Company will have the following interest:

Name	Country of incorporation	Principal activities	Effective equity interest held %
<i>Held by the Company:</i>			
Knit Textile Holdings Sdn. Bhd.	Malaysia	Investment holding	100
Callisto Apparel Holdings Pte. Ltd.	Singapore	Investment holding	100
Moon Apparel Holdings Pte. Ltd.	Singapore	Investment holding	100
Xentika Limited	Seychelles	International business	100
<i>Held through subsidiaries:</i>			
<i>Held by Knit Textile Holdings Sdn. Bhd.</i>			
Knit Textiles Mfg. Sdn. Bhd.	Malaysia	Apparel manufacturing	100
<i>Held by Knit Textiles Mfg. Sdn. Bhd</i>			
Ocean Art & Embellishment Sdn. Bhd.	Malaysia	Operation of a fabric dyeing and finishing plant	100
<i>Held by Callisto Apparel Holdings Pte. Ltd.</i>			
Callisto Apparel (Cambodia) Co., Ltd.	Cambodia	Apparel manufacturing	100
<i>Held by Moon Apparel Holdings Pte. Ltd.</i>			
Moon Apparel (Cambodia) Co. Ltd.	Cambodia	Apparel manufacturing	100

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5. Basis of preparation of the unaudited pro forma consolidated financial information

The unaudited pro forma consolidated financial information refers to the consolidated financial information of the Enlarged Group.

The unaudited pro forma consolidated financial statements comprise the unaudited pro forma consolidated statements of financial position as at 31 December 2017 and 30 June 2018, the unaudited pro forma consolidated statements of comprehensive income for the year ended 31 December 2017 and the six-month period ended 30 June 2018, and the unaudited pro forma consolidated statements of cash flow for the year ended 31 December 2017 and the six-month period ended 30 June 2018.

The unaudited pro forma consolidated statements of financial position as at 31 December 2017 and 30 June 2018 have been prepared on the assumption that the Enlarged Group structure had been in place on 31 December 2017 and 30 June 2018 respectively.

The unaudited pro forma consolidated statements of comprehensive income and the unaudited pro forma consolidated statements of cash flow for the year ended 31 December 2017 and six-month ended 30 June 2018 have been prepared on the assumption that the Enlarged Group structure had been in place on 1 January 2017.

The unaudited pro forma consolidated financial statements are for illustrative purposes only. The objective is to show what the historical financial information might have been had the Enlarged Group existed at an earlier date. However, the financial information of the Enlarged Group, by its nature may not give a true picture of the Enlarged Group's actual financial position and results and is not necessarily indicative of the results of the operations or the related effects on the financial position that would have been attained had the abovementioned Enlarged Group existed earlier.

The unaudited pro forma consolidated financial information for the year ended 31 December 2017 and six-month period ended 30 June 2018 has been compiled based on:

- (i) The audited financial statements of Lereno Bio-Chem Ltd. and its subsidiaries (collectively, the "LBC Group") for the nine-month ended 31 December 2017 are audited by Foo Kon Tan LLP. The financial statements were prepared in accordance with Singapore Financial Reporting Standards ("SFRS"). The independent auditor's report on the financial statements contained an unmodified opinion with an emphasis of matter paragraph on going concern uncertainty.

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**5. Basis of preparation of the unaudited pro forma consolidated financial information
(cont'd)**

- (ii) The financial statements of the LBC Group for the three-month period ended 31 March 2017 are neither reviewed nor audited as the LBC Group's contribution to the Enlarged Group's results for the year ended 31 December 2017 is not significant to the Enlarged Group, given that the LBC Group has no operation for the three-month period ended 31 March 2017.
- (iii) The financial statements of LBC Group for the six-month period ended 30 June 2018 are neither reviewed nor audited as the LBC Group's contribution to the Enlarged Group's results for the six-month period ended 30 June 2018 is not significant to the Enlarged Group, given that the LBC Group has no operation for the six-month period ended 30 June 2018.
- (iv) The combined financial statements of Knit Textile and Apparel Pte. Ltd. and its subsidiaries for the year ended 31 December 2017 are audited by Ernst & Young LLP, Singapore. The financial statements were prepared in accordance with SFRS. The independent auditor's reports on the combined financial statements did not contain any qualification, modification or disclaimer.
- (v) The combined financial statements of Knit Textile and Apparel Pte. Ltd. and its subsidiaries for the six-month period ended 30 June 2018 are reviewed by Ernst & Young LLP, Singapore under Singapore Standard on Review Engagements SSRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, as promulgated by the Institute of Singapore Chartered Accountants. These financial statements were prepared in accordance with Singapore Financial Reporting Standards International ("SFRS(I)").

The unaudited pro forma consolidated financial statements have been prepared using uniform accounting policies, like transactions and other events in similar circumstances, as set out in respective financial statements in the Circular. The unaudited pro forma consolidated financial information is presented in Ringgit Malaysia ("RM") and all values in the tables are rounded to the nearest thousand ("RM'000"), except when otherwise indicated.

In arriving at the unaudited pro forma consolidated financial information, adjustments have been made as considered necessary in order to present the financial statements on a consistent and comparable basis as if the Enlarged Group had been in existence through the period, or since the respective dates of incorporation or acquisition of the companies in the Enlarged Group, taking into consideration the following significant events.

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**5. Basis of preparation of the unaudited pro forma consolidated financial information
(cont'd)**

(a) Proposed Restructuring Exercise

The Target Company will directly or indirectly acquire 100% of the ordinary shares in each of the Target Subsidiaries from the Vendor and his nominees at a consideration which is determined based on the share capital of each of the Target Subsidiaries. The aggregate consideration will be fully satisfied by the allotment and issuance of a total of 5,400,010 Target Shares which for the purpose of the unaudited pro forma consolidated financial information, assumed to be RM11,532,000.

(b) Proposed Acquisition – acquisition of the Target Group

The Proposed Acquisition as described in Note 3 will result in the shareholder of the Target Company obtaining the majority interest in the enlarged share capital of the Company. As such, the Proposed Acquisition is accounted for as reversed acquisition, in which Knit Textile and Apparel Pte. Ltd., the legal subsidiary is deemed as the accounting acquirer that acquires the Company, which is the legal parent and accounting acquiree.

The acquisition of the Target Group is accounted for in the unaudited pro forma consolidated financial information as a reverse acquisition involving a non-trading shell company. This transaction has been accounted for in the unaudited pro forma consolidated financial information as a share-based transaction as described in SFRS(I) 2 *Share-based Payment* where the Target Group is deemed to have issued shares in exchange for the listing status of the Company.

(c) Cost of acquisition – listing expenses

The cost of acquisition is measured as the excess of (i) and (ii) below:

- (i) the consideration effectively transferred (generally measured at acquisition-date fair value) by the Target Company, which is the accounting acquirer.
- (ii) the net of the acquisition-date fair values (or other amounts recognised in accordance with the requirements of the standard) of the identifiable assets acquired and the liabilities assumed of the Company, which is the accounting acquiree.

The listing status did not qualify for recognition as an intangible asset, and accordingly, the cost of the reverse acquisition (net of assets/liabilities acquired) is expensed off in the profit or loss as listing expenses.

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**5. Basis of preparation of the unaudited pro forma consolidated financial information
(cont'd)**

(d) Consideration transferred

The fair value of the consideration transferred is determined based on the acquisition-date fair value of the accounting acquiree's equity interests which is the more reliable measure than the acquisition-date fair value of the accounting acquirer's equity interests as the quoted market price of the Company provides a more reliable basis.

As stipulated in the Option Agreement, upon completion of the Proposed Acquisition, the Company will issue 480,000,000 shares to Bin Tai Holdings Private Limited ("Bin Tai") as full and final settlement of all amounts owed by the Company to any third parties including amounts owed by the Company to Bin Tai and Ong Choon Lui (both are existing shareholders of the Company), subject to a maximum of S\$4,800,000 (equivalent to RM14,248,000 million), as at the Completion date of the Proposed Acquisition (the "Settlement Shares").

Accordingly, the acquisition-date fair value of the consideration transferred for the Proposed Acquisition is measured based on the fair value of the Company's equity interest, as represented by the total number of the Company issued ordinary shares existing at the date of acquisition (including the Settlement Shares), at the Company's closing price per share on the last trading day preceding the completion of the Proposed Acquisition.

(i) Deemed consideration for the unaudited pro forma consolidated income statements for the year ended 31 December 2017 and the six-month period ended 30 June 2018

The deemed consideration is assumed to be 553,631,858 shares, inclusive of 480,000,000 Settlement Shares issued to Bin Tai for the full and final settlement of all amounts owed by the Company at the date of completion of the Proposed Acquisition, which is assumed to be on 1 January 2017, at S\$0.02 (equivalent to RM0.06) per share.

(ii) Deemed consideration for the unaudited pro forma consolidated statements of financial position as at 31 December 2017 and 30 June 2018

The deemed consideration is assumed to be 553,631,858 shares, inclusive of 480,000,000 Settlement Shares issued to Bin Tai for the full and final settlement of all amounts owed by the Company at the date of completion of the Proposed Acquisition, which is assumed to be on 31 December 2017 and 30 June 2018, at S\$0.015 (equivalent to RM0.04) per share and \$0.023 (equivalent to RM0.07) per share respectively.

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**5. Basis of preparation of the unaudited pro forma consolidated financial information
(cont'd)**

(d) Consideration transferred (cont'd)

In accordance with SFRS(I) 2, the deemed consideration is generally measured at acquisition-date fair value based on the closing share price at the completion date of the Proposed Acquisition. Accordingly, the deemed consideration determined on the actual completion date may differ from the above assumption.

For the purpose of the unaudited pro forma consolidated financial information, the assets and liabilities of the Company upon completion of the Proposed Acquisition and issuance of Settlement Shares, are assumed to be zero.

(e) Reverse acquisition accounting:

Since such consolidated financial statements represent a continuation of the financial statements of the Target Group,

- the assets and liabilities of the Target Group are recognised and measured at their pre-acquisition carrying amounts;
- the assets and liabilities of the Company and its subsidiaries are recognised and measured at their acquisition-date fair values;
- the accumulated profits and other equity balances are the accumulated profits and other equity balances of the Target Group immediately before the reverse acquisition;
- the amount recognised as issued equity interests in the unaudited pro forma consolidated financial information of the Enlarged Group is determined by adding the issued equity interest of the Target Group outstanding immediately before the reverse acquisition to the costs of the reverse acquisition. However, the equity structure in the consolidated financial statements (i.e. the number and type of equity instruments issued) reflect the equity structure of the legal parent (i.e. the Company), including the equity instruments issued by the Company to effect the reverse acquisition;
- the consolidated statement of comprehensive income reflects the full year results of Target Group together with the post-acquisition results of the Company.

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**5. Basis of preparation of the unaudited pro forma consolidated financial information
(cont'd)**

(f) Transaction costs

In accordance with the Option Agreement, Transaction Costs relate to the professional fees incurred or to be incurred by the Company in connection with the Proposed Acquisition including but not limited to the independent valuer, the financial adviser, the independent financial adviser, the sponsor, the reporting accountants and the solicitors (collectively, the professional advisers"). The Transaction Costs, which include stamp duty, are expenses of the Company as the professional advisers provide services to the Company. The Vendor has agreed to pay on behalf of the Company all Transaction Costs as and when the payment is due. Subject to the completion of the Proposed Acquisition, the Transaction Costs shall be deemed to be an interest-free loan from the Vendor to the Company.

As stipulated in the Option Agreement, upon completion of the Proposed Acquisition, the Company is required to issue shares to the Vendor as final and full settlement of the Transaction Costs.

For the purpose of the unaudited pro forma consolidated financial information, except for the amount pertaining to stamp duty, the remaining transaction costs are accounted as pre-acquisition costs of the Company, and accordingly, have no impact to the unaudited pro forma consolidated financial information as the unaudited pro forma consolidated statement of comprehensive income reflects only the full year results of the Target Group with the post-acquisition results of the Company (Note 5d).

Stamp duty relating to the Proposed Acquisition

Stamp duty is payable on the instrument of transfer of the shares at the rate of S\$0.20 (equivalent to RM0.59) for every S\$100 (equivalent to RM296) or part thereof, computed on the consideration or net asset value of the shares registered in Singapore, whichever is higher.

For the purpose of the unaudited pro forma consolidated financial information, it is assumed that the stamp duty is S\$52,800 (equivalent to RM157,000).

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6. Statement of adjustments

The following adjustments have been made in arriving at the unaudited pro forma consolidated financial information:

Unaudited Pro Forma Consolidated Statement of Comprehensive income for the year ended 31 December 2017

	Audited financial information of Target Group for the year ended 31 December 2017 RM'000		Pro Forma Adjustments RM'000	Unaudited Pro Forma Consolidated Statement of Comprehensive Income RM'000
Revenue	218,301			218,301
Cost of sales	(182,459)			(182,459)
Gross profit	35,842			35,842
Other items of income				
Interest income	251			251
Other income	1,492			1,492
Other items of expense				
Administrative and general expenses	(16,084)	(ii)	(35,220)	(51,468)
		(iii)	(164)	
Selling and marketing expenses	(7,272)			(7,272)
Finance costs	(1,522)			(1,522)
Profit/(loss) before tax	12,707			(22,677)
Income tax expense	(3,877)			(3,877)
Profit/(loss) for the year	8,830			(26,554)
Other comprehensive loss:				
<i>Items that may be reclassified subsequent to profit or loss</i>				
Foreign currency translation	(1,222)			(1,222)
Total comprehensive income for the year	7,608			(27,776)

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6. Statement of adjustments (cont'd)

Unaudited Pro Forma Consolidated Statement of Comprehensive Income for the six-month period ended 30 June 2018

	Unaudited financial information of Target Group for the six-month period ended 30 June 2018		Pro Forma Adjustments	Unaudited Pro Forma Consolidated Statement of Comprehensive Income
	RM'000		RM'000	RM'000
Revenue	106,390			106,390
Cost of sales	(91,687)			(91,687)
	<hr/>			<hr/>
Gross profit	14,703			14,703
Other items of income				
Interest income	117			117
Other income	75			75
Administrative and general expenses	(8,267)	(ii)	(680)	(8,947)
Selling and marketing expenses	(3,395)			(3,395)
Finance costs	(860)			(860)
	<hr/>			<hr/>
Profit before tax	2,373			1,693
Income tax expense	(934)			(934)
	<hr/>			<hr/>
Profit for the period	1,439			759
Other comprehensive income:				
<i>Items that may be reclassified subsequent to profit or loss</i>				
Foreign currency translation	(78)			(78)
	<hr/>			<hr/>
Total comprehensive income for the period	1,361			681
	<hr/> <hr/>			<hr/> <hr/>

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THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH
PERIOD ENDED 30 JUNE 2018**

6. Statement of adjustments (cont'd)

Unaudited Pro Forma Consolidated Statement of Financial Position as at 31 December 2017

	Audited financial information of Target Group as at 31 December 2017 RM'000		Pro Forma Adjustments RM'000	Unaudited Pro Forma Consolidated Statement of Financial Position RM'000
Assets				
Non-current asset				
Property, plant and equipment	44,979			44,979
Current assets				
Inventories	30,526			30,526
Trade and other receivables	51,304			51,304
Other current assets	1,320			1,320
Cash and short-term deposits	12,484			12,484
	95,634			95,634
Total assets	140,613			140,613
Equity and liabilities				
Current liabilities				
Trade and other payables	48,071			48,071
Borrowings	40,210			40,210
Tax payable	1,712			1,712
	89,993			89,993
Net current assets	5,641			5,641
Non-current liabilities				
Borrowings	9,910			9,910
Deferred tax liabilities	1,324			1,324
	11,234			11,234
Total liabilities	101,227			101,227
Net assets	39,386			39,386
Equity attributable to owner of the Company				
Share capital	–	(i)	11,532	36,842
		(ii)	25,150	
		(iii)	160	
Retained earnings/(accumulated losses)	25,211	(ii)	(25,150)	(99)
		(iii)	(160)	
Foreign currency translation reserve	2,643			2,643
Merger reserve	11,532	(i)	(11,532)	–
Total equity	39,386			39,386
Total equity and liabilities	140,613			140,613

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL INFORMATION OF THE ENLARGED GROUP FOR
THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 AND
THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

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THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH
PERIOD ENDED 30 JUNE 2018**

6. Statement of adjustments (cont'd)

Unaudited Pro Forma Consolidated Statement of Financial Position as at 30 June 2018

	Unaudited financial information of Target Group as at 30 June 2018 RM'000		Pro Forma Adjustments RM'000	Unaudited Pro Forma Consolidated Statement of Financial Position RM'000
Assets				
Non-current asset				
Property, plant and equipment	50,476			50,476
Current assets				
Inventories	70,640			70,640
Trade and other receivables	42,882			42,882
Other current assets	1,261			1,261
Cash and short-term deposits	11,527			11,527
	126,310			126,310
Total assets	176,786			176,786
Equity and liabilities				
Current liabilities				
Trade and other payables	66,776			66,776
Borrowings	51,432			51,432
Tax payable	1,630			1,630
	119,838			119,838
Net current assets	6,472			6,472
Non-current liabilities				
Borrowings	15,624			15,624
Deferred tax liabilities	1,005			1,005
	16,629			16,629
Total liabilities	136,467			136,467
Net assets	40,319			40,319
Equity attributable to owner of the Company				
Share capital	–	(i)	11,532	49,485
		(ii)	37,796	
		(iii)	157	
Retained earnings/(accumulated losses)	26,222	(ii)	(37,796)	(11,731)
		(iii)	(157)	
Foreign currency translation reserve	2,565			2,565
Merger reserve	11,532	(i)	(11,532)	–
Total equity	40,319			40,319
Total equity and liabilities	176,786			176,786

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
FINANCIAL INFORMATION OF THE ENLARGED GROUP FOR
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**LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES
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THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH
PERIOD ENDED 30 JUNE 2018**

6. Statement of adjustments (cont'd)

Unaudited Pro Forma Consolidated Statement of Cash Flows as at 31 December 2017

	Audited financial information of Target Group for the year ended 31 December 2017		Pro Forma Adjustments	Unaudited Pro Forma Consolidated Statement of Cash Flows
	RM'000		RM'000	RM'000
Operating activities				
Profit/(loss) before tax	12,707	(ii)	(35,220)	(22,677)
		(iii)	(164)	
<u>Adjustments for:</u>				
Bad debts written off	27			27
Depreciation of property, plant and equipment	3,770			3,770
Interest expense	1,522			1,522
Gain on disposal of property, plant and equipment	(204)			(204)
Unrealised gain on foreign exchange	(217)			(217)
Interest income	(251)			(251)
Share-based payment in relation to stamp duty		(iii)	164	164
Listing expense	–	(ii)	34,398	34,398
Operating profit before working capital changes	17,354			16,532
Increase in inventories	(5,099)			(5,099)
Increase in receivables	(31,115)			(31,115)
Decrease in other current assets	154			154
Increase in payables	17,420	(ii)	822	18,242
Cash flows used in operations	(1,286)			(1,286)
Interest paid	(1,522)			(1,522)
Taxes paid	(2,746)			(2,746)
Net cash used in operating activities	(5,554)			(5,554)

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
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**LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES
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THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH
PERIOD ENDED 30 JUNE 2018**

6. Statement of adjustments (cont'd)

*Unaudited Pro Forma Consolidated Statement of Cash Flows as at 31 December 2017
(cont'd)*

	Audited financial information of Target Group for the year ended 31 December 2017	Pro Forma Adjustments	Unaudited Pro Forma Consolidated Statement of Cash Flows
	RM'000	RM'000	RM'000
Investing activities			
Purchase of property, plant and equipment	(16,806)		(16,806)
Proceeds from disposal of property, plant and equipment	450		450
Interest received	251		251
	<hr/>		<hr/>
Cash flows used in investing activities	(16,105)		(16,105)
	<hr/>		<hr/>
Financing activities			
Repayment of obligations under finance leases	(263)		(263)
Placement of deposits pledged for security	(239)		(239)
Drawdown of term loans	9,936		9,936
Repayment of term loans	(1,824)		(1,824)
Drawdown of other short term borrowings	11,526		11,526
Dividends paid	(1,424)		(1,424)
	<hr/>		<hr/>
Cash flows generated from financing activities	17,712		17,712
	<hr/>		<hr/>
Net decrease in cash and cash equivalents	(3,947)		(3,947)
Effect of exchange rate changes on cash and cash equivalents	(246)		(246)
Cash and cash equivalents at beginning of financial year	7,951		7,951
	<hr/>		<hr/>
Cash and cash equivalents at end of financial year	<u>3,758</u>		<u>3,758</u>

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
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6. Statement of adjustments (cont'd)

Unaudited Pro Forma Consolidated Statement of Cash Flows as at 30 June 2018

	Unaudited financial information of Target Group for the six- month period ended 30 June 2018		Pro Forma Adjustments	Unaudited Pro Forma Consolidated Statement of Cash Flows
	RM'000		RM'000	RM'000
Operating activities				
Profit before tax	2,373	(ii)	(680)	1,693
<u>Adjustments for:</u>				
Bad debts written off	46			46
Depreciation of property, plant and equipment	2,015			2,015
Interest expense	860			860
Gain on disposal of property, plant and equipment	(57)			(57)
Property, plant and equipment written off	2			2
Unrealised loss on foreign exchange	680			680
Interest income	(117)			(117)
Allowance for impairment of other receivables	12			12
Operating profit before working capital changes	5,814			5,134
Increase in inventories	(40,113)			(40,113)
Decrease in receivables	8,539			8,539
Decrease in other current assets	53			53
Increase in payables	21,865	(ii)	680	22,545
Cash flows used in operations	(3,842)			(3,842)
Interest paid	(860)			(860)
Taxes paid	(1,333)			(1,333)
Net cash used in operating activities	(6,035)			(6,035)

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
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THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH
PERIOD ENDED 30 JUNE 2018**

6. Statement of adjustments (cont'd)

Unaudited Pro Forma Consolidated Statement of Cash Flows as at 30 June 2018 (cont'd)

	Unaudited financial information of Target Group for the six- month period ended 30 June 2018	Pro Forma Adjustments	Unaudited Pro Forma Consolidated Statement of Cash Flows
	RM'000	RM'000	RM'000
Investing activities			
Purchase of property, plant and equipment	(7,608)		(7,608)
Proceeds from disposal of property, plant and equipment	91		91
Interest received	117		117
	<hr/>		<hr/>
Cash flows used in investing activities	(7,400)		(7,400)
	<hr/>		<hr/>
Financing activities			
Repayment of obligations under finance leases	(146)		(146)
Placement of deposits pledged for security	3,649		3,649
Drawdown of term loans	5,948		5,948
Repayment of term loans	(2,038)		(2,038)
Drawdown of other short term borrowings	12,727		12,727
Dividends paid	(3,813)		(3,813)
	<hr/>		<hr/>
Cash flows generated from financing activities	16,327		16,327
	<hr/>		<hr/>
Net increase in cash and cash equivalents	2,892		2,892
Effect of exchange rate changes on cash and cash equivalents	(36)		(36)
Cash and cash equivalents at beginning of financial period	3,758		3,758
	<hr/>		<hr/>
Cash and cash equivalents at end of financial period	6,614		6,614
	<hr/> <hr/>		<hr/> <hr/>

**APPENDIX F: REPORT ON UNAUDITED PRO FORMA CONSOLIDATED
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THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 AND
THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

**LERENO BIO-CHEM LTD. AND ITS SUBSIDIARIES
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THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2017 AND THE SIX-MONTH
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6. Statement of adjustments (cont'd)

Details of Pro Forma adjustments for Enlarged Group made are as follows:

- (i) Being adjustments to reflect the Proposed Restructuring Exercise as disclosed in Note 5(a).
- (ii) Being adjustments to reflect the reverse acquisition of Lereno Bio-Chem Ltd. (accounting acquiree) by Knit Textile and Apparel Pte. Ltd. (accounting acquirer), including the recognition of listing expense, as disclosed in Note 5(b), 5(c), 5(d) and 5(e).
- (iii) Being adjustment to reflect the stamp duty relating to the Proposed Acquisition as disclosed in Note 5(f).

7. Earnings per share

Basic earnings per share are calculated by dividing the (loss)/profit for the year/period by the weighted average number of ordinary shares outstanding during the year/period. The number of ordinary shares outstanding is based on the number of shares of the Company as at 31 December 2017 and 30 June 2018 respectively, assuming the Proposed Acquisition had been in place since 1 January 2017.

	For the year ended 31 December 2017	For the six-month period ended 30 June 2018
(Loss)/profit for the year/period (RM)	(26,554,000)	759,000
Weighted average number of Consolidated Shares ⁽¹⁾	169,681,592	169,681,592
Basic and diluted (loss)/earnings per share (RM)	<u>(0.156)</u>	<u>0.004</u>

(1) Assuming every 20 ordinary shares into 1 consolidated share.

8. Authorisation of unaudited pro forma consolidated financial information for issue

The unaudited pro forma consolidated financial information for the year ended 31 December 2017 and the six-month period ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 21 December 2018.

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APPENDIX G: BUSINESS VALUATION REPORT

**VALUATION REPORT
CONSIDERING
THE 100% EQUITY INTEREST
IN
KNIT TEXTILE AND APPAREL PTE. LTD. AND
ITS SUBSIDIARIES**

Client : Lereno Bio-Chem Ltd.
Ref. No. : CON000413026
Report Date : 21 December 2018

APPENDIX G: BUSINESS VALUATION REPORT

Our reference: CON000413026

21 December 2018

The Directors
Lereno Bio-Chem Ltd.
80 Robinson Road #02-00
Singapore 068898

Dear Sirs,

In accordance with the instructions received from Lereno Bio-Chem Ltd. (the “Company”), we have undertaken an investigation and analysis to determine an independent opinion on the market value of the 100% equity interest in Knit Textile and Apparel Pte. Ltd. (the “Target Company”) and its subsidiaries (collectively, the “Target Group”) as at 30 June 2018 (the “Valuation Date”). The report is issued on 21 December 2018 (the “Report Date”).

The purpose of this valuation is for full inclusion in the circular to shareholders of the Company for the proposed acquisition of the Target Group.

BACKGROUND

On 27 September 2017, the Company has entered into a conditional put and call option agreement with Mr Lim Siau Hing @ Lim Kim Hoe (the “Vendor”) to acquire 100% of the issued ordinary shares in the capital of the Target Company for an aggregate consideration of SGD26,400,000, subject to adjustment in accordance with the agreement.

Lereno Bio-Chem Ltd.

2

Market Value of 100% Equity Interest in Knit Textile and Apparel Pte. Ltd.
and Its Subsidiaries

APPENDIX G: BUSINESS VALUATION REPORT

The proposed acquisition, if completed, would constitute a “Reverse Takeover” pursuant to the Rules of Catalist of the Listing Manual of the Singapore Exchange Securities Trading Limited (“Catalist Rules”) and is subject to, among other things, the approval of the shareholders of the Company at an extraordinary general meeting to be convened and the issue of a listing and quotation notice by the Singapore Exchange Securities Trading Limited (“SGX-ST”).

The Target Company is a private limited company incorporated and domiciled in Singapore. It is an investment holding company that has been incorporated by the Vendor for the purpose of holding the target subsidiaries pursuant to the restructuring in which the Target Company will acquire, and directly or indirectly own, all of the issued and paid-up share capital of the following companies:

- i. Knit Textiles Mfg. Sdn. Bhd., a company incorporated in Malaysia;
- ii. Knit Textile Holdings Sdn Bhd., a company incorporated in Malaysia;
- iii. Ocean Art & Embellishment Sdn. Bhd., a company incorporated in Malaysia;
- iv. Moon Apparel Holdings Pte. Ltd., a company incorporated in Singapore;
- v. Moon Apparel (Cambodia) Co. Ltd, a company incorporated in Cambodia;
- vi. Callisto Apparel Holdings Pte. Ltd., a company incorporated in Singapore;
- vii. Callisto Apparel (Cambodia) Co. Ltd, a company incorporated in Cambodia; and
- viii. Xentika Limited, a company incorporated in Seychelles.

The Target Group is engaged primarily in the business of contract manufacturing of apparels, specialising in manufacturing of sleepwear, lounge wear, casual wear and plus sizes apparels in Malaysia and Cambodia, and are currently in the course of expanding upstream into the knitting, dyeing, printing and finishing of fabric.

APPENDIX G: BUSINESS VALUATION REPORT

BASIS OF VALUE

Our valuation was carried out on a market value basis. Market value is defined as *“estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”*.

VALUTION METHODOLOGY

We have relied solely on the income approach in determining our opinion of value, which incorporates information about economic benefits contributed by the 100% equity interest in the Target Group.

We wish to highlight that the opinion of value is subject to numerous assumptions and our consideration of various factors that are relevant to the operation of the Target Group. Our opinion is also heavily reliant on information provided to us, which we are not in the position to verify for accuracy or truthfulness. Finally, we must emphasize that the realization of prospective financial information is highly uncertain and is dependent on the validity of many assumptions which frequently do not occur as expected causing significant difference in value.

Key valuation inputs include (1) revenue growth rate at 23% in year 2018, 6% to 12% from 2019 to 2022, and 3% thereafter, (2) gross margin (exclude depreciation) at 16% to 18%, (3) profit margin at 2% to 4%, (4) discount rate at 11.4%, and (5) discount for lack of marketability at 14.7%.

On top of such assumptions, we have also considered various risks and uncertainties that have potential impact on the businesses. Furthermore, readers should be aware of the ever-present model risk inherent in any financial model which is a simplified version of reality with many complications either unaccounted or incorrectly accounted for.

APPENDIX G: BUSINESS VALUATION REPORT

OPINION OF VALUE

Based on the results of our investigation and analysis outlined in the report, we are of the opinion that the market value of the 100% equity interest in the Target Group as at the Valuation Date is reasonably stated as below:

Valuation Date	Market Value (SGD)
30 June 2018	30,400,000

This report is issued subject to our Limiting Conditions as attached.

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited



Simon M.K. Chan

Regional Director

Note: Simon M.K. Chan is a Chartered Valuer and Appraiser, and a fellow member of Hong Kong Institute of Certified Public Accountants (HKICPA), CPA Australia as well as the Royal Institution of Chartered Surveyors (FRICS). Simon has extensive experience in valuation and corporate advisory business, providing a wide range of valuation and advisory services to numerous listed and private companies in different industries, including textile-related companies, in Asia Pacific region for over 20 years.

APPENDIX G: BUSINESS VALUATION REPORT

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company / Target Group and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the analysis of the Company / Target Group in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company / Target Group.
2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
4. The board of directors and the management of Company / Target Group have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from the Company. Such kind of additional work may incur without prior notification to the Company.
6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.
7. The use of and/or the validity of the report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.
8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

APPENDIX G: BUSINESS VALUATION REPORT

9. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.
10. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company / Target Group because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.
11. This report has been prepared solely for the purpose stated in this report. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. We shall not under any circumstances whatsoever be liable to any third party except where we specifically agreed in writing to accept such liability.
12. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as of the Valuation / Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
13. Where a distinct and definite representation has been made to us by parties interested in the Valuation Subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.
14. The Company / Target Group agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

APPENDIX G: BUSINESS VALUATION REPORT

15. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.
16. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company / Target Group and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.
17. This report and the conclusion of values arrived at herein are for the exclusive use of the Company for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company / Target Group and other sources. Actual transactions involving the assets or businesses of the Valuation Subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the assets or businesses, and the knowledge and motivation of the buyers and sellers at that time.
18. The board of directors, management and/or staff of the Company / Target Group and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and JLL in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company / Target Group and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

APPENDIX H: ADDITIONAL INFORMATION ON THE COMPANY AND THE ENLARGED GROUP

1. SHARE CAPITAL

As at the Latest Practicable Date, there is only one class of shares in the capital of the Company and all the issued Shares are fully paid-up. The rights and privileges attached to its Shares are stated in the Constitution. The Shares, as well as the new Shares, are registered shares. Shareholders are not entitled to pre-emptive rights to purchase Shares under the Existing Constitution or Singapore law.

Based on the unaudited management accounts of the Company, the issued and paid-up share capital of the Company as at the Latest Practicable Date was S\$36,827,431 divided into 73,631,858 Shares. Based on the filings with ACRA, the issued and paid-up share capital of the Company as at Latest Practicable Date was S\$38,627,389. The difference between the issued and paid-up share capital described above is due to an issuance of 120,000,000 Shares in FY2010 being recorded with ACRA as having an issue price of S\$0.03 per Share in accordance with a sale and purchase agreement for the acquisition of Jarak Nursery Sdn Bhd, and the same Shares being recorded in the Company's accounts as having an issue price of S\$0.015 per Share instead of S\$0.03 per Share to reflect the market value of the Shares.

As at the Latest Practicable Date, save as disclosed in Section 12.3 entitled "Changes in shareholding structure" of this Circular, the Company is not directly or indirectly owned or controlled, whether severally or jointly, by any person or government.

As at the Latest Practicable Date, save for the Proposed Acquisition, there is no other arrangement the operation of which may result in a change in control of the Company after Completion.

Save as disclosed in this Circular, there has not been any public take-over offer by a third party in respect of any of the Shares or by the Company in respect of the shares of another corporation or the units of a business trust, which has occurred between the beginning of FY2017, being the most recent completed financial year, and the Latest Practicable Date.

There were no changes in the issued and paid-up share capital of the Company or its subsidiaries in the three (3) years prior to the Latest Practicable Date.

There has been no change in the percentage of equity interest held by the Company in the subsidiaries of the Group in the three (3) years prior to the Latest Practicable Date.

There has been no change in the voting rights attached to the shares of the Company and its subsidiaries in the three (3) years prior to the Latest Practicable Date.

Save as disclosed above, no shares in the Company or any of its subsidiaries have been issued for a consideration other than for cash, during the three (3) years prior to the Latest Practicable Date.

Save as disclosed in this Circular, as at the Latest Practicable Date:

- (a) no person has, or has the right to be given, an option to subscribe for or purchase any securities or securities-based derivative contracts of the Company;

APPENDIX H: ADDITIONAL INFORMATION ON THE COMPANY AND THE ENLARGED GROUP

- (b) there is no arrangement which involves the employees of the Company, or the directors or employees of a subsidiary or an associated company of the Company in the capital of the Company, including any arrangement that involves the issue or grant of options or Shares or any other securities or securities-based derivatives contracts in the Company, and no option to subscribe for Shares has been granted to, or was exercised by, any Director or the CEO of the Company, and
- (c) none of the Shares are held by or on behalf of the Company or its subsidiary.

There is no shareholding qualification for the Directors of the Company in the Existing Constitution.

There are no restrictions on the free transferability of the Shares which are fully paid-up under the Existing Constitution.

2. SHARE PRICE

The share prices of the Company traded on the SGX-ST for the relevant periods are set out below:

- (a) The annual highest and lowest daily closing market prices for the three (3) most recent completed financial years.

Financial Year	High (S\$)	Low (S\$)
FY2015	0.105	0.002
FY2016	0.040	0.006
FY2017	0.045	0.005

- (b) The highest and lowest daily closing market prices for each financial quarter of the two (2) most recent financial years and the last three (3) most recent completed financial quarters prior to the Latest Practicable Date.

Financial Quarter	High (S\$)	Low (S\$)
2016: 1st Quarter	0.060	0.042
2016: 2nd Quarter	0.035	0.025
2016: 3rd Quarter	0.040	0.009
2016: 4th Quarter	0.040	0.006
2017: 1st Quarter	0.040	0.008
2017: 2nd Quarter	0.033	0.005
2017: 3rd Quarter	0.045	0.006
2017: 4th Quarter	0.038	0.015
2018: 1st Quarter	0.039	0.010
2018: 2nd Quarter	0.034	0.011
2018: 3rd Quarter	0.025	0.006

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- (c) The highest and lowest daily closing market prices for each month for the most recent six (6) months prior to the Latest Practicable Date.

Month	High (S\$)	Low (S\$)
June 2018	0.023	0.011
July 2018	0.024	0.011
August 2018	0.024	0.011
September 2018	0.025	0.006
October 2018	0.006	0.006
November 2018	0.012	0.012

- (d) The closing market price per Share on the last trading day prior to the announcement of the Proposed Acquisition was S\$0.045⁽¹⁾. The closing market price per Share on the Latest Practicable Date was S\$0.012⁽²⁾.

The Shares are generally regularly traded on SGX-ST during the three (3) years immediately preceding the Latest Practicable Date, and there has been no significant trading suspension during the three (3) years immediately preceding the Latest Practicable Date.

Notes:

- (1) This refers to the closing market price on 26 September 2017, the last market day prior to the announcement of the Proposed Acquisition.
- (2) This refers to the closing market price on 20 November 2018, the last market day prior to the Latest Practicable Date.
- (3) The above share prices are quoted from Bloomberg L.P.
- (4) The above information is extracted and compiled from Bloomberg L.P. Bloomberg L.P. has not provided its consent, for the purpose of Section 249 of the SFA, to the inclusion of the above information and is thereby not liable for the above information under sections 253 and 254 of the SFA. Whilst reasonable action has been taken to ensure that the above information is reproduced in its proper form and context, and that the information is extracted fairly and accurately, neither the Company nor any other party has conducted independent review of the information obtained from Bloomberg L.P. nor verified the accuracy of the contents of the relevant information obtained from Bloomberg L.P.

3. CONSTITUTION

The discussion below provides a summary of the Existing Constitution relating to restrictions on voting rights, remuneration and borrowing powers of the Directors, and to the variation of members' rights, increase of capital, alteration of capital, dividends, the transfer of shares and voting rights of members. This discussion is only a summary and is qualified by reference to Singapore law and the Existing Constitution.

3.1 Directors

(a) Ability of interested directors to vote

A Director may contract with and be interested in any contract or proposed contract with the Company and shall not be liable to account for any profit made by him by reason of any such contract; PROVIDED ALWAYS THAT the nature of the interest of

APPENDIX H: ADDITIONAL INFORMATION ON THE COMPANY AND THE ENLARGED GROUP

the Director in any such contract be declared at a meeting of the Directors as required by Section 156 of the Companies Act. No Director shall vote as a Director in respect of any contract or proposed contract or arrangement in which he is directly or indirectly interested, although he shall be counted in the quorum present at the meeting.

(b) Remuneration

Fees payable to the Directors shall from time to time be determined by the Company in general meeting and such fees shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the meeting.

Fees payable to non-executive directors shall be by a fixed sum and not by way of commission on or percentage of profits or turnover. Salaries payable to executive directors may not include a commission on or percentage of turnover. The Directors shall also be paid such travelling, hotel and other expenses as may reasonably be incurred by them in the execution of their duties including any such expenses incurred in connection with their attendance at meeting of Directors. If by arrangement with the other Directors any Director shall perform or render any special duties or services outside his ordinary duties as a Director, the Directors may pay him special remuneration, in addition to his ordinary remuneration, and such special remuneration may be by way of salary, commission, participation in profits or otherwise, as may be arranged.

A Director holding the office of Chairman or Deputy of the Company shall receive such remuneration as the Directors may determine but shall not under any circumstances be remunerated by a commission on or percentage of turnover.

The Directors may from time to time and at any time appoint one or more of their body to be Managing Director or Managing Directors for a term not exceeding five years upon such terms and at such remuneration (whether by way of salary or commission or participation in profits, or by any or all of these modes or otherwise) as they may think fit.

There are no specific provisions in the Existing Constitution relating to a Director's power to vote on remuneration (including pension or other benefits) for himself or for any other Director, and whether the quorum at the meeting of our Board of Directors to vote on Directors' remuneration may include the Director whose remuneration is the subject of the vote.

(c) Borrowing

The Directors may borrow or raise from time to time for the purposes of the Company or secure the payment of such sums as they may think fit, and may secure the repayment or payment of any such sums by mortgage or charge upon all or any of the property or assets of the Company or by the issue of debentures or otherwise as they may think fit.

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(d) Retirement age limit

There is no retirement age limit for Directors under the Existing Constitution of the Company.

(e) No shareholding qualification

There is no shareholding qualification for Directors in the Existing Constitution.

3.2 Rights, preferences and restrictions of shares

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares the Directors may allot and issue shares or grant options over or otherwise dispose of the same to such persons at such terms and conditions and for such consideration and at such time and subject or not to the payment of any part of the amount thereof in cash as the Directors may think fit, and any share with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Directors may deem fit; PROVIDED ALWAYS THAT the total value of issued preference shares shall not at any time exceed the total value of issued ordinary shares of the Company.⁽¹⁾

Note:

- (1) Please refer to Section 9.2.1 entitled “Proposed amendments to Article 5” of the Circular and Appendix L entitled “Proposed Amendments to the Existing Constitution” of the Circular in relation to the proposed amendment of Article 5 of the Existing Constitution.

Subject to Section 70 of the Companies Act, any preference shares may be issued on the terms that they are, or at the option of the Company are liable, to be redeemed. The Company shall also have the power to issue further preference shares ranking equally with or in priority to any preference shares already issued.

Holders of preference shares shall have the same rights as ordinary shareholders as regards receiving notices, reports and balance sheets, and attending general meetings of the Company. They shall have the right to vote at any meeting convened for the purpose of reducing the capital or winding up or sanctioning a sale of the undertaking of the Company, or where the proposition to be submitted to the meeting directly affects their rights and privileges, or when the dividends on the preference shares are in arrears for more than six (6) months.

The repayment of preference capital other than redeemable preference capital, or any alteration of preference shareholders’ rights, may only be made pursuant to a special resolution of the preference shareholders concerned; PROVIDED ALWAYS THAT where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing, if obtained from the holders of the three-fourths of the preference shares concerned within two (2) months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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3.3 Variation of rights

Subject to the provisions of Section 74 of the Companies Act, all or any of the rights, privileges or conditions for the time being attached or belonging to any class of shares for the time being forming part of the share capital of the Company may from time to time be modified, affected, varied, extended or surrendered in any manner with the consent in writing of the holders who represent not less than three-fourths of the total voting rights of all the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the Members of that class. To any such separate meeting all the provisions of these Articles as to general meetings of the Company shall mutatis mutandis apply, but so that the necessary quorum shall be Members of the class holding or representing by proxy one-third of the total voting rights of all the issued shares of the class, and every holder of shares of the class in question shall be entitled on a poll to one vote for every such share held by him.

3.4 Alteration of share capital

The Company may by ordinary resolution:

- (a) consolidate and divide all or any of its share capital; or
- (b) sub-divide its existing shares, or any of them in accordance with the Act and listing rules of the Singapore Exchange and so that as between the resulting shares, one or more of such shares may by the resolution by which such subdivision is effected be given any preference or advantage as regards dividend, capital, voting or otherwise over the others or any other of such shares; or
- (c) cancel any shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the number of the shares so cancelled.

The Company may by special resolution reduce its share capital in any manner authorised and subject to any conditions prescribed by the Companies Act and other legislations.

Subject to the provisions of the Companies Act, the Company may purchase any of its own ordinary shares in the issued share capital of the Company on such terms and in such manner as the Company may from time to time think fit. If required by the Statutes, any share which is so purchased or acquired by the Company shall, unless held as treasury shares in accordance with the Statutes, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to the Existing Constitution and the Companies Act, the amount of share capital of the Company shall be reduced accordingly.

3.5 Issue of new shares

- (a) Subject to any direction to the contrary that may be given by the Company in general meeting or except as permitted under SGX-ST's listing rules, all new shares of whatever kind shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of general meetings in

APPENDIX H: ADDITIONAL INFORMATION ON THE COMPANY AND THE ENLARGED GROUP

proportion, as nearly as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined. After the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under the relevant Article.

- (b) Approval of the Company's shareholders referred to in Section 3.5(a) above is not required if the Shareholders have by ordinary resolution in a general meeting given a general mandate to the Directors of the Company, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to issue shares, provided that the aggregate number of shares to be issued pursuant to the resolution does not exceed 50% of the Company's existing issued share capital, of which the aggregate number of shares issued other than on a pro rata basis to existing shareholders does not exceed 20% of the Company's existing issued share capital. Such a general mandate shall only remain in force until⁽¹⁾:
 - (i) the conclusion of the first annual general meeting of the Company following the passing of the resolution at which time it shall lapse unless, by ordinary resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or
 - (ii) revoked or varied by ordinary resolution of the shareholders in general meeting whichever occurs first.

Note:

- (1) Please refer to Section 9.2.2 entitled "Proposed amendments to Article 12(2)" of this Circular and Appendix L entitled "Proposed Amendments to the Existing Constitution" of the Circular in relation to the proposed amendment of Article 12(2) of the Existing Constitution.

3.6 Transfer of shares

There shall be no restriction on the transfer of fully paid up shares (except where required by law, the listing rules of any stock exchange upon which the shares of the Company may be listed or the rules and/or bye-laws governing any stock exchange upon which the shares of the Company may be listed) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien and in the case of shares not fully paid-up may refuse to register a transfer to a transferee of whom they do not approve, provided always that in the event of the Directors refusing to register a transfer of shares, they shall within ten (10) market days beginning with the days on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.

APPENDIX H: ADDITIONAL INFORMATION ON THE COMPANY AND THE ENLARGED GROUP

3.7 Votes of members

(a) General

Subject to any rights or restrictions for the time being attached to any class or classes of shares, every Member present in person and each proxy and each attorney shall have one vote on a show of hands and on a poll, every Member present in person or by proxy shall have one vote for each share which he holds or represents PROVIDED THAT a Depositor shall only be entitled to attend any general meeting and to speak and vote thereat if his name appears on the Depository Register forty-eight (48) hours before the general meeting as a Depositor on whose behalf the Depository holds shares in the Company, the Company being entitled then to deem each such Depositor as holding such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of the CDP as supplied by the CDP to the Company, or where a Depositor has appointed a proxy, such proxy as representing such number of shares.

(b) Appointing of proxy

A member may appoint not more than two proxies to attend and vote at the same general meeting.

Where the member appoints more than one proxy to attend and vote at the same general meeting he shall specify on each instrument of proxy the number of shares in respect of which the appointment is made, failing which, the appointment shall be deemed to be in the alternative.

3.8 Dividends and distribution

Subject to any preferential or other special rights for the time being attached to any special class of shares and except as otherwise permitted under the Companies Act and other legislations, the profits of the Company which it shall from time to time determine to distribute by way of dividends shall be applied in payment of dividends upon the shares of the Company in proportion to the number of shares held by a member but where shares are partly paid, all dividends must be apportioned and paid proportionately to the amounts paid up or credited as paid on the partly paid shares thereon respectively otherwise than in advance of calls PROVIDED THAT where a member is a Depositor, the Company shall be entitled to pay any dividends payable to such member to the CDP and, to the extent of the payment made to the CDP, the Company shall be discharged from any and all liability in respect of that payment.

The Directors may, with the sanction of a general meeting, from time to time declare dividends, but no such dividend shall be payable except out of the profits of the Company. The Directors may, if they think fit, from time to time declare and pay to the Members such interim dividends as appear to them to be justified by the position of the Company, and may also from time to time if in their opinion such payment is so justified, pay any preferential dividends which by the terms of issue of any shares are made payable on fixed dates. No higher dividend shall be paid than is recommended by the Directors, and the declaration of the Directors as to the amount of the net profits shall be conclusive. No dividends may be paid, unless otherwise provided in the Statutes, to the Company in respect of treasury shares.

APPENDIX H: ADDITIONAL INFORMATION ON THE COMPANY AND THE ENLARGED GROUP

Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one or more of such ways, and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

The payment by the Directors of any unclaimed dividends or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. All dividends unclaimed after being declared may be invested or otherwise made use of by the Directors for the benefit of the Company and any dividend unclaimed after a period of six (6) years from the date of declaration of such dividend may be forfeited and if so shall revert to the Company but the Directors may at any time thereafter at their absolute discretion annul any such forfeiture and pay the dividend so forfeited to the person entitled thereto prior to the forfeiture. If the Depository returns any such dividend or moneys to the Company, the relevant Depositor shall not have any right or claim in respect of such dividend or moneys against the Company if a period of six years has elapsed from the date of the declaration of such dividend or the date on which such other moneys are first payable. For the avoidance of doubt no member shall be entitled to any interest, share of revenue or other benefit arising from any unclaimed dividends, howsoever and whatsoever.

3.9 Limitations on foreign or non-resident Shareholders

There are no limitations imposed by Singapore law or by the Constitution of the Company on the rights of the Shareholders who are regarded as non-residents of Singapore, to hold or vote their shares.

3.10 Winding Up

If the Company shall be wound up, the liquidators may, with the sanction of a special resolution, divide among the members in specie any part of the assets of the Company and any such division may be otherwise than in accordance with the existing rights of the members, but so that if any division is resolved on otherwise than in accordance with such rights the members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to section 306 of the Companies Act. A special resolution sanctioning a transfer of sale to another company duly passed pursuant to the said section may in like manner authorise the distribution of any shares or other consideration receivable by the liquidators amongst the members otherwise than in accordance with their existing rights, and any such determination shall be binding upon all the members subject to the right of dissent and consequential rights conferred by the said section.

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APPENDIX I: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN MALAYSIA

The following is for general information only and does not purport to be a comprehensive description or exhaustive statement of applicable Malaysian laws and regulations. This description is based on laws, regulations and interpretations now in effect and available as at the Latest Practicable Date. The laws, regulations and interpretations, however, may change at any time, and any change could be retroactive. These laws and regulations are also subject to various interpretations and the relevant authorities or the courts could later disagree with the explanations or conclusions set out below.

The following is a summary of the main laws and regulations of Malaysia that are material to the Target Group's business as at the Latest Practicable Date:

1. Manufacturing Activity

- 1.1 As a manufacturer in Malaysia, the Target Group is subject to local by-laws which are mandated and governed by the local authority flowing from the Local Government Act 1976. Any company conducting business activities is required to obtain business and advertising licences from the local authority where the business premise is situated. The business premise shall be inspected or supervised by the local authority, which is empowered to grant, grant-with-condition(s), not grant and revoke licences which have been granted. The municipal council has issued a yearly renewable licence to KTM.
- 1.2 Further, as KTM has more than 75 full-time paid employees, the Industrial Co-ordination Act 1975 requires any company of that size or larger which is engaged in manufacturing activities to be granted a manufacturing licence issued by the Ministry of International Trade and Industry of Malaysia ("**MITI**"). As at the Latest Practicable Date, MITI has granted a manufacturing licence to KTM.
- 1.3 The Target Group is required to notify MITI of the change in shareholding of KTM after the Restructuring Exercise is completed. The Legal Adviser to the Target Group on Malaysia Law has confirmed that the conditions of licences issued by MITI to KTM do not require notification to be made to MITI prior to any changes in shareholdings in KTM.

2. Factories and Machinery

- 2.1 Section 19 of the Factories and Machinery Act 1967 ("**FMA**"), which is administered by the Department of Occupational Safety and Health of Malaysia, provides that no person shall operate or permit to operate any machinery in respect of which a certificate of fitness is prescribed under the FMA, unless there is in force in relation to the operation of such machinery a valid certificate of fitness issued under the FMA.
- 2.2 Operating any machinery without a valid certificate will result in an inspector appointed under the FMA serving upon the person a notice in writing prohibiting the operation of the machinery or may render the machinery inoperative until such time as a valid certificate of fitness is issued. In addition, failure to obtain a valid certificate of fitness is considered an offence under the FMA and shall, on conviction, be liable to a fine not exceeding RM150,000 or to imprisonment for a term not exceeding three (3) years or to both.

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- 2.3 Section 34(2) of the FMA further provides that no person shall, except with the written permission of the inspector, begin to use any premises as a factory until one (1) month after he has served on the inspector a written notice in the prescribed form. This is not applicable to any person who takes over a factory from another person if there is no change in the nature of the work carried on in the factory provided that the first person shall within one (1) month of such taking over have served on the inspector written notice in the prescribed form.

3. Workplace Safety and Health

- 3.1 Pursuant to the Occupational Safety and Health Act 1994, every employer has an obligation to secure the safety, health and welfare of its employees and to protect other persons at its place of work against risks to safety or health arising out of the activities of its employees.

The measures required to be undertaken include:

- (a) providing and maintaining plant and systems of work that are, so far as is practicable, safe and without risks to health;
 - (b) making arrangements to ensure, so far as is practicable, the safety and absence of risks to health in connection with the use or operation, handling, storage and transport of plant and substances;
 - (c) providing information, instruction training and supervision as is necessary to ensure, so far as is practicable, the safety and health of its employees;
 - (d) so far as is practicable, with regards to any place of work under its control, the maintenance of it in a condition that is safe and without risks to health and the provision and maintenance of the means of access to and egress from it that are safe and without such risks; and
 - (e) providing and maintaining a working environment for its employees that is, so far as is practicable, safe, without risks to health, and adequate as regards facilities for their welfare at work.
- 3.2 The regulatory body in charge of enforcing these laws is the Department of Occupational Safety and Health, Malaysia.

4. Employment Laws

- 4.1 The relevant legal framework and procedures relating to employees and/or former employees who have been unfairly dismissed and/or constructively dismissed by employers is set out in the Industrial Relations Act 1967 (“IRA”). The IRA provides an avenue for employees to seek redress by bringing matters to the Industrial Court of Malaysia, which has jurisdiction over matters relating to industrial relation matters. In general, former employees who claim to have been unfairly and/or unlawfully dismissed by an employer may seek reinstatement to their position or compensation in lieu of reinstatement and backwages for a maximum of up to twenty-four (24) months of their last-drawn salary.

APPENDIX I: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN MALAYSIA

- 4.2 The Minimum Wages Order 2016 (“**MWO**”) provides that an employee shall be paid an average minimum wage of not less than RM1,000 per month in Peninsular Malaysia or RM920 per month in Sabah, Sarawak and the Federal Territory of Labuan. The MWO was made pursuant to the National Wages Consultative Council Act 2011 (“**NWCCA**”) and any party which fails to comply with the order, if convicted, can be fined up to RM10,000 for each offence and RM1,000 per day for a continuing offence under NWCCA.
- 4.3 Furthermore, the Employment Act 1955 (“**EA**”) provides for the minimum benefits and standards in respect of employees earning a monthly salary of RM2,000 and below and employees involved in manual labour, supervisors of such manual labourers, drivers and domestic servants regardless of their monthly salary. The EA provides for the statutory requirements and standards in relation to, among other things, employees’ working hours, overtime payment, leave, public holidays, termination and benefits for layoffs. Where there is any inconsistency between the terms of an employment contract and the provisions of the legislation, the employee would be entitled to the more favourable treatment.
- 4.4 Under the Immigration Act 1959, the employment of foreigners is prohibited unless the employment permits and visas specifying the duration of employment are granted. Such permits and visas are subject to renewal upon their expiry.
- 4.5 The payment of compensation to workmen for injury suffered in the course of their employment is regulated by the Workmen’s Compensation Act 1952 (“**WCA**”). Only employees earning monthly salary below RM500 and workmen employed for manual labour regardless of their monthly salary are covered under the WCA. Employers are required to compensate and pay for expenses incurred in the workmen’s rehabilitation. As for the employees of the Target Group who are not covered by the WCA, they are covered by the Employees’ Social Security Act 1969 (“**SOCSSO**”) whereby employers have the statutory duty to insure its employees in the manner provided under the SOCSSO, in respect of injuries occurring in the course of the employment.
- 4.6 Employers are mandated under the Employees Provident Fund Act 1991 to make contributions of 13% of employees’ salaries (for employees earning less than RM5,000 a month) or 12% of employees’ salaries (for employees earning more than RM5,000 a month).
- 4.7 The regulatory body in charge of enforcing these laws and regulations is the Labour Department of the Ministry of Human Resources.

5. Environmental Laws

The Environmental Quality Act 1974 (“**EQA**”) and the regulations and orders made thereunder are laws related to the prevention, abatement, control of pollution and enhancement of the environment in Malaysia. The EQA states, among other things, that the acceptable conditions for the emission, discharge or deposit of environmentally hazardous substances, pollutants or waste, or the emission of noise into any area, segment or element of the environment may be specified by regulations. The Director General of Environment has been appointed to administer the EQA and any regulations and orders made thereunder through the Department of Environment of Malaysia.

APPENDIX I: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN MALAYSIA

6. Certificate of Fitness for Occupation (“CF”)/Certificate of Completion and Compliance (“CCC”)

6.1 The Street, Drainage and Building (Amendment) Act 2007 (“**SDB 2007**”) provides that without prejudice to any penalty that may be imposed, the erection of a building without any approved plans and specifications by the local authority immediately before the date of coming into operation of the SDB 2007 shall be subject to the provisions of the Street, Drainage and Building Act 1974 (“**SDB 1974**”) (as if SDB 1974 has not been amended by the SDB 2007) provided that (a) an application for the approval of the plans and specifications of the building is made to the local authority on or after the date of coming into operation of the SDB 2007; and (b) the application referred to in paragraph (a) is approved.

6.2 Factories erected prior to 12 April 2007

(a) Under the relevant by-laws, no person shall occupy or permit to be occupied any building or any part thereof, unless a CF for such building is issued. Failure to comply with such a requirement under the by-laws amounts to an offence under the SDB 1974 which carries a fine not exceeding RM10,000 and a further fine of RM250 for every day during which the offence is continued.

(b) Factories erected without building plans

SDB 1974 provides that no person shall commence the erection of a building unless such work is commenced within twelve (12) months from the date on which the plans and specifications of such building were approved by the local authority. Any person who commences erection of a building in contravention of this requirement shall be liable to a fine not exceeding RM10,000 and shall also be liable to a further fine of RM250 for every day during which the offence is continued after conviction.

(c) Factories erected without planning permission

The Town and Country Act 1976 provides that a person who, whether at his own instance or at the instance of another person, commences, undertakes, or carries out, or permits to be commenced, undertaken, or carried out, any development without a valid planning permission commits an offence and is liable to a fine not exceeding RM500,000 or to imprisonment for a term not exceeding two (2) years or to both and, in the case of a continuing offence, to a further fine which may extend to RM5,000 for each day during which the offence continues after the first conviction for the offence.

6.3 Factories erected on or after 12 April 2007

(a) Pursuant to the SDB 2007, any person who occupies or permits to be occupied any building or any part thereof without a CCC shall be liable to a fine not exceeding RM250,000 or to imprisonment for a term not exceeding ten (10) years or to both.

APPENDIX I: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN MALAYSIA

(b) Factories erected without building plans

SDB 2007 provides that no person shall commence the erection of a building unless such work is commenced within twelve (12) months from the date on which the plans and specifications of such building were approved by the local authority. Any person who commences erection of a building in contravention of this requirement shall be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding three (3) years or to both and shall also be liable to a further fine of RM1,000 for every day during which the offence is continued after conviction.

(c) Factories erected without planning permission

The Town and Country Act 1976 provides that a person who, whether at his own instance or at the instance of another person commences, undertakes, or carries out, or permits to be commenced, undertaken, or carried out, any development without a valid planning permission commits an offence and is liable to a fine not exceeding RM500,000 or to imprisonment for a term not exceeding two (2) years or to both and, in the case of a continuing offence, to a further fine which may extend to RM5,000 for each day during which the offence continues after the first conviction for the offence.

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APPENDIX J: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN CAMBODIA

The following is for general information only and does not purport to be a comprehensive description or exhaustive statement of applicable Cambodian laws and regulations. This description is based on laws, regulations and interpretations now in effect and available as at the Latest Practicable Date. The laws, regulations and interpretations, however, may change at any time, and any change could be retroactive. These laws and regulations are also subject to various interpretations and the relevant authorities or the courts could later disagree with the explanations or conclusions set out below.

The following is a summary of the main laws and regulations of Cambodia that are material to the Target Group's business as at the Latest Practicable Date:

1. Cambodian Legal System

- 1.1 The Kingdom of Cambodia is a constitutional monarchy, guided by principles of liberal democracy and pluralism. The Cambodian legal system is statute-based and is largely modeled on the French civil law system. The Constitution, promulgated in 1993, is the supreme law of Cambodia. There are three (3) branches established under the 1993 Constitution of Cambodia, i.e. the executive branch, the legislative branch and the judicial branch.
- 1.2 In accordance with Cambodian laws and regulations, as well as the current practice, sources of law in Cambodia can be classified as either primary sources, which include all legal instruments of the competent authorities of Cambodia, or secondary sources, which include customs, traditions, principles of conscience and equity, judicial decisions, arbitral awards, and legal doctrines. However, other than the precedents of the Extraordinary Chambers in the Courts of Cambodia, a specialised court with jurisdiction over crimes committed by senior leaders of the Khmer Rouge regime, precedents are not often referred to in the judicial system in Cambodia. The precedents for arbitral awards covering labour disputes are well developed by the Arbitration Council, a quasi-judicial body that has jurisdiction over collective labor disputes.

2. Company Law

- 2.1 Every company in Cambodia is regulated primarily by the Law on Commercial Enterprises ("**LCE**") and the Law on Commercial Rules and Register, and the Law on Amendment to the Law on Commercial Rules and Register ("**LCRR**") promulgated on 19 June 2005, 26 June 1995, and 18 November 1999 respectively. The LCE provides the different forms of commercial enterprises available for doing business in Cambodia, including partnerships, public limited and private limited companies and forms for foreign businesses to engage in activities in Cambodia. Meanwhile, the LCRR stipulates the registration and corporate restructuring procedures and the nature of business activities that can be conducted in Cambodia. Under the LCRR, a company in Cambodia is required to be registered with the Ministry of Commerce ("**MOC**") fifteen (15) days before it commences operation and is deemed to exist from the date its certificate of incorporation is issued by the MOC. Under the LCE, a foreign company may conduct business in Cambodia using one (1) of the following three (3) forms of commercial enterprises, i.e. representative office, branch, or subsidiary. Of these three (3) forms, only a subsidiary has a separate legal personality from its parent company.

APPENDIX J: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN CAMBODIA

- 2.2 The limited liability company is the most common form of investment vehicle in Cambodia, and it can be 100% Cambodian-owned, 100% foreign-owned, or have any combination of Cambodian and foreign shareholding. A 100% foreign-owned or Cambodian-owned private limited company is called a single member private limited company. A single member private limited company can have one (1) director and one (1) shareholder and is not required to hire an auditor.
- 2.3 Prakas No. 299 dated 29 December 2015 (a *prakas* is a ministerial regulation) of the MOC introduced a compulsory online business registration system which every company must use for its incorporation and any restructuring. Further, a company that was registered with the MOC before this online system came into effect is required to re-register with the online system. Failure to re-register will result in the relevant authorities taking action in response to such non-compliance, including punitive action.

3. Investment Law

- 3.1 Any investment in Cambodia is subject to, among others, the Law on Investment of Cambodia enacted on 4 August 1994, as amended by the Law on the Amendment of the Investment Law dated 24 March 2003 ("**Investment Law**"), and implementing Sub-Decree 111 of the Amendment to the Law on Investment of Cambodia enacted on 27 September 2005 ("**Sub-Decree 111**").
- 3.2 The Investment Law guarantees that a foreign investor will not be discriminated against by reason of being a foreign investor, except in respect of land, as set out in the Land Law promulgated on 30 August 2001 ("**Cambodian Land Law**"). In the same respect, the Constitution and the Cambodian Land Law provide that only Khmer legal entities or natural persons have the right to own land in Cambodia. Under the Cambodian Land Law, a corporate entity will be regarded as having Khmer nationality if it is registered in Cambodia and more than 51% of its shares are owned by Khmer natural persons or legal entities of Khmer nationality.
- 3.3 All business activities in Cambodia are permitted, subject to the prohibitions set out in the 'Negative List' in Sub-Decree 111. As provided in the Negative List, some forms of investment are restricted for reasons of national security, social safety or protection of the national economy. The manufacture of garments is not listed in the Negative List and, as a result, is not prohibited or restricted in Cambodia.
- 3.4 Under the Investment Law and its implementing regulations, a company may apply for a QIP status either with the Council for the Development of Cambodia ("**CDC**") or the Provincial Municipal Investment Sub-Committee ("**PMIS**"). Nonetheless, not all companies are eligible for QIP incentives. In essence the project, or investment, should be of a significant size and value as to create jobs and generate income.
- 3.5 The Negative List identifies all industries and investment levels that are not eligible for QIP status. In accordance with the Negative List, the investment related to garment factory that is not eligible for QIP is the production of garments, textiles, footwear and/or hats with investment capital of less than US\$500,000. Accordingly, a garment factory with investment capital of US\$500,000 or more is eligible to apply for QIP status. Further, to qualify for tax incentives, the company needs to submit its application to the CDC or PMIS based on the location of the company. A company that holds a QIP may seek different tax incentives and other benefits from the Cambodian government, including exemptions on profit tax or custom duty exemptions as determined by the CDC.

APPENDIX J: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN CAMBODIA

4. Factory Construction Permit

- 4.1 Under current construction regulations, specifically Sub-Decree No. 86 on Construction Permits dated 19 December 1997, the construction of any building in Cambodia is subject to a construction permit obtained from either the Ministry of Land Management, Urban Planning and Construction (“**MLMUPC**”) or the provincial governor, depending on the scale of construction.
- 4.2 Likewise, the construction of garment factories is subject to construction permits. In this regard, the construction owner is required to apply for a permit on opening the construction site prior to the commencement of the work and a permit on closing the construction site upon the completion of the construction. Any construction without proper permits is deemed illegal and is subject to various sanctions, ranging from penalty, demolition of the illegal part of the building, and/or criminal action.

5. Factory Related Compliances

- 5.1 In Cambodia, the establishment and operation of a factory, including, but not limited to, a garment factory is under the control of Ministry of Industry and Handicraft (“**MIH**”), and governed by the Law on Management of Factory and Handicraft promulgated on 23 June 2006 and amended on 23 October 2014 (“**Factory Law**”) and Prakas No. 607 on Procedures and Formalities for Establishment of a Factory and Handicrafts dated 22 July 2009.
- 5.2 Under Cambodian law, a factory is defined as a manufacturing facility containing or being expected to contain tools, machines, equipment and furniture to be used in the facility for producing manufactured products which have a total replacement value of equal to more than US\$50,000.
- 5.3 The main garment factory-related compliance matters for the establishment and operation of a garment factor are as follows:

(a) Pre-Operation Compliance

(i) *Factory Establishment Permit*

To establish a garment factory, the owner or an authorised person is required to apply for a factory establishment permit along with other required documents at the MIH before the construction of the garment factory. Any garment factory established without the factory establishment permit may be subjected to temporary ceasing of factory activity for a specific period and rectification of non-compliance. Non-compliance with the MIH’s order can lead to the close of the garment factory and the person in charge is subject to a fine and/or imprisonment.

(ii) *Certificate of Factory Operation*

In addition, prior to the actual operation of the garment factory, the owner or an authorised person is required to apply for a certificate of factory operation and, under the Factory Law, a garment factory owner is required to inform the MIH at least fifteen (15) days in advance. Failure to comply with this requirement is subject to a fine.

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(b) On-Going Operation Compliance

(i) *Permit for Expansion or Establishment of Branch or Relocation of the Factory*

For expansion, establishment of a branch, or relocation of a garment factory, a permit from the MIH is required. Failure to comply with this requirement is subject to a fine under the Factory Law.

Under the Factory Law, the expansion of a factory is defined as a 20% increase of the original capacity calculated by (A) the increase in the number of machineries or change of machineries; (B) the modification for preparation, expansion, or construction of a building; (C) the change of produced items or the addition of other produced items; or (D) the expansion of the factory's space. The establishment of a branch is the establishment of a new production base which produces products to support the mother factory. Relocation is the change to a new factory location.

(ii) *Approval for Change of Factory Name*

In the event of a change of the factory name, the approval on the change of the factory name from the MIH is required under the Factory Law. Failure to comply with this requirement is subject to a fine under the Factory Law.

(iii) *Recognition as Factory Owner (Change/Death or Legal Disability of Factory Owner)*

In case of a change of the garment factory owner, the Factory Law requires the new owner to apply for recognition as the factory owner from the MIH within a maximum period of ten (10) working days from the date of obtaining the right to be the new factory owner. Likewise, in the event of death or legal disability of the garment factory owner, the legal successor must apply for recognition as the factory owner to the MIH within a maximum period of 45 working days from the date of death or legal disability. Failure to apply for the recognition is subject to a fine.

(iv) *Letter for Permanent Ceasing of Operations*

Under the Factory Law, the suspension of a garment factory's operation for twelve (12) consecutive months is deemed the permanent ceasing of operations of the garment factory, except due to force majeure. In such a case, the MIH invalidates the factory establishment permit. It is also a requirement that the garment factory owner gives written notice to the MIH at least one (1) month prior to the date of the permanent ceasing of operations. Failure to comply with the notice requirement is subject to a fine under the Factory Law.

APPENDIX J: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN CAMBODIA

6. Environmental Compliance

- 6.1 The operation of a garment factory is also subject to environmental compliance under the authority of the Ministry of Environment (“**MOE**”). The key environmental regulation is the Law on Environmental Protection and Management of Natural Resources No. 1296.36 dated 24 December 1996 (“**Environmental Law**”) and four (4) supporting regulations, i.e. Sub-Decree No. 72 on the Environmental Impact Assessment Process dated 11 August 1999 (“**Sub-Decree No. 72**”), Sub-Decree No. 36 on Management of Solid Waste dated 27 April 1999, Sub-Decree No. 27 on Water Pollution Control dated 16 April 1999 (“**Sub-Decree No. 27**”), and Sub-Decree No. 42 on Air Pollution Control and Noise Disturbance dated 10 July 2000 (“**Sub-Decree No. 42**”).
- 6.2 The main environmental compliance issues for the operation of a garment factory in Cambodia are as follows:

(a) Initial Environmental Impact Assessment and Environmental Impact Assessment

A garment factory may be required to prepare an initial environmental impact assessment report (“**IEIA**”). A garment factory must prepare a full environmental impact assessment report (“**EIA**”) in case the garment factory’s operation is found to have a severe environmental impact on natural resources, the eco-system, health or public health under Sub-Decree No. 72. The IEIA or EIA must be submitted to the MOE for review, comment and approval prior to the commencement of the operation. The garment factory owner must ensure the implementation of the IEIA or EIA. Under the Environmental Law, failure to comply with the IEIA or EIA requirement is subject to the MOE’s order to (i) rectify the non-compliance in due course; (ii) suspend the operation until the non-compliance has been rectified; or (iii) eliminate the pollution, if any, in due course. Furthermore, the non-compliance is subject to a fine and recidivism is subject to a fine and/or imprisonment.

However, special case for the garment factory, the MOE requires the project owner to make Environmental Protection Contract and Environmental Management Plan without preparation of EIA report, for approval from MOE as stated in the Letter No. 978 of the MOE to CDC dated 4 July 2014.

(b) Management of Solid Waste and Solid Waste Discharge Permit

A garment factory must classify its solid waste into two (2) groups: solid waste-garbage and industrial solid waste under Notification No. 011 on the Management of Solid Waste in Factories, Enterprises and Companies dated 16 January 2003 (“**Notification No. 011**”) and must also engage an authorised waste collection company for solid waste collection and transportation. The factory is required to apply for a solid waste discharge permit from the MOE before having industrial solid waste, such as fibrous and clothing waste, collected and transported.

Failure to obtain the solid waste discharge permit is a violation of Notification No. 011. In such a case, the MOE may order the offending party to (i) rectify the non-compliance in due course; (ii) suspend its operation until the non-compliance has been rectified; or (iii) eliminate the pollution, if any, in due course. Furthermore, the non-compliance is subject to a fine and recidivism is subject to a fine and/or imprisonment.

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(c) Wastewater Discharge Permit

Any garment factory with laundry activity which produces effluent exceeding ten cubic meters per day (exclusive of water volume used for cooling engines) shall obtain approval from the MOE prior to the discharge or transportation of wastewater under Sub-Decree No. 27. Furthermore, the wastewater discharge permit must be approved by Provincial/Municipal Department of Environment for wastewater which is not classified as hazardous waste or by the MOE for wastewater classified as hazardous waste under the MOE's Notice No. 51 dated 20 September 1999 on Strengthening the Implementation of Sub-Decree No. 27.

Failure to obtain a wastewater discharge permit is a violation of Sub-Decree No. 27. In such a case, the MOE may order the offending party to (i) rectify the non-compliance in due course; (ii) suspend its operation until the non-compliance has been rectified; or (iii) eliminate the pollution, if any, in due course. Furthermore, the non-compliance is subject to a fine and recidivism is subject to a fine and/or imprisonment.

(d) Noise Emission Permit

Any garment factory, whether new or existing, must apply for a noise emission permit, except for any garment factory which has an EIA. Garment factories are prohibited from emitting noise beyond the standard noise level stated in Sub-Decree No. 42.

Non-compliance may be subject to an order from the MOE to (i) rectify the non-compliance in due course; (ii) suspend the operation until the non-compliance has been rectified; or (iii) eliminate the pollution, if any, in due course. Furthermore, the non-compliance is subject to a fine and recidivism is subject to a fine and/or imprisonment.

7. Labour and Employment

- 7.1 Under the Labor Law promulgated on 13 March 1997 and amended on 20 July 2007 ("**Labor Law**"), all employers under this law in general have to fulfill labour compliance obligations including but not limited to registration for opening of its business with the MLVT, arrangement of election of shop stewards, registration of its internal labor regulations with the MLVT, applying for work permit if any foreigner performs work in the enterprise, applying for overtime permit if any employee works overtime, and respect the freedom of union.
- 7.2 Moreover, by the Law on Social Security Schemes promulgated on 25 September 2012, the Cambodian social security insurance has three (3) different schemes: (a) occupational risk; (b) health care; and (c) pension fund. Only the occupational risk and health care schemes are currently being implemented by the National Social Security Funds ("**NSSF**"). All enterprises employing from one (1) employee is required to register with the NSSF for both occupational risk and health care scheme. The employer must pay monthly contribution at a rate of 0.8% of the assumed monthly average wage of each employee for occupational risk. Under the Prakas No. 220 dated 13 June 2016, the employer and each employee have an obligation to pay monthly contribution of 1.3% of the assumed monthly average wage of employee. However, this Prakas has been abrogated by the Prakas No. 449 dated 10 November 2017. Under the Prakas No. 449, the burden is on the employer to make monthly contributions of 2.6% of the assumed monthly average wage of each employee for health care scheme; the new monthly contribution rate has been applicable since 1 January 2018.

APPENDIX J: SUMMARY OF APPLICABLE LAWS AND REGULATIONS IN CAMBODIA

- 7.3 Besides the above-mentioned general labor compliance obligations, there exist some specific labor regulations applicable only in the garment, textile, and footwear enterprises. Minimum wages of these enterprises have been set forth by regulations and these wages have to be revised every year from 2015 onwards. Under the Prakas No. 396 dated 5 October 2017, the minimum wages in 2018 is US\$165 for probationary employees and US\$170 for regular employees. Under the Notification No. 230 dated 25 July 2012, there are additional compulsory benefits for the employees in these industries including but not limited to transportation and accommodation allowance of US\$7 per month, attendance bonus of US\$10 per month, seniority bonus from US\$2 to US\$11 per month, meal allowance for overtime work of KHR 2,000 (approximately US\$0.5 per one time of overtime work). Under Prakas No. 109, dated 17 March 2016, the female employees in the aforesaid industries will be entitled to an additional allowance provided by the NSSF during maternity leave. The allowances are KHR400,000 for one (1) baby, KHR800,000 for twin babies and KHR1,200,000 for triple babies, which have been implemented since 1 January 2018. Last but not least, under the Notification No. 294, dated 27 September 2017, employees having the pregnancy starting from three (3) months are entitled to early leave from the workplace at least fifteen (15) minutes.

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APPENDIX K: TAXATION

The following discussion describes the Singapore income tax, stamp duty and Goods and Services Tax (GST) consequences of the purchase, ownership and disposal of the Shares. It is not intended to be and does not constitute legal or tax advice.

While this discussion is based on existing laws, regulations and interpretations now in effect and available as at the date of this Circular, no assurance can be given that the courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such law, which may be retrospective, will not occur. The discussion is not intended to constitute a comprehensive or exhaustive description of all of the Singapore tax considerations that may be relevant to a Shareholder's decision with regard to the ownership of the Shares.

Prospective investors should consult their tax advisers regarding Singapore tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither the Company, the Vendor, the Target Group, the Directors, the New Directors nor any other persons involved in the Proposed Transactions accepts responsibility for any tax effects or liabilities resulting from the subscription, purchase, holding or disposal of the Shares.

1. Individual Income Tax

- 1.1 Individual taxpayers, (whether resident or not), are subject to tax on income accrued in or derived from Singapore, subject to certain exceptions. All foreign-sourced income (except for income received through a partnership in Singapore) received or deemed received in Singapore are generally exempt from tax.
- 1.2 A Singapore tax resident individual is taxed at progressive rates up to a maximum rate of 22.0%. Non-resident individuals are, subject to certain exceptions, generally subject to tax on income accrued in or derived from Singapore at a flat rate of 22.0%, except that Singapore employment income is taxed at a flat rate of 15.0% or at progressive resident rates with relief, whichever yields a higher tax.
- 1.3 An individual is regarded as a tax resident in Singapore if in the calendar year preceding the year of assessment, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he ordinarily resides in Singapore.

2. Corporate Income Tax

- 2.1 Corporate taxpayers (whether Singapore tax resident or not) are generally subject to Singapore income tax on:
 - (a) income accruing in or derived from Singapore; and
 - (b) foreign-sourced income received or deemed received in Singapore, unless specified conditions for exemption under the Singapore Income Tax Act ("**SITA**") are satisfied.
- 2.2 Foreign-sourced income in the form of dividends, branch profits and service fee income (collectively referred to as "**specified foreign income**") received or deemed received in Singapore by a Singapore tax resident corporate taxpayer are exempted from Singapore corporate income tax subject to meeting the following conditions:
 - (a) The income is subject to tax of a similar character to income tax (by whatever name called) under the law of the territory from which the income is received.

APPENDIX K: TAXATION

(b) At the time the income is received in Singapore, the highest rate of tax of a similar character to income tax (by whatever name called) levied under the law of the territory from which the income is received is at least 15%.

(c) The Inland Revenue Authority of Singapore (“**IRAS**”) is satisfied that the tax exemption would be beneficial to the Singapore tax resident corporate taxpayer.

2.3 A company is regarded as tax resident in Singapore if the control and management of the company’s business is exercised in Singapore.

2.4 The prevailing corporate income tax rate in Singapore is 17%, with partial tax exemption as follows:

For Year of Assessment (“**YA**”) 2010 to YA 2019, the partial tax exemption is granted on the first S\$300,000 of a company’s normal chargeable income as follows:

(a) 75% exemption of up to the first S\$10,000 of normal chargeable income; and

(b) 50% exemption of up to the next S\$290,000 of normal chargeable income.

From YA 2020, the partial tax exemption is granted on the first S\$200,000 of a company’s normal chargeable income as follows:

(a) 75% exemption of up to the first S\$10,000 of normal chargeable income; and

(b) 50% exemption of up to the next S\$190,000 of normal chargeable income.

2.5 For the YA 2018 and YA 2019, companies will be granted corporate income tax rebate at the following rates:

– 40% of tax payable, capped at S\$15,000 for YA 2018; and

– 20% of tax payable, capped at S\$10,000 for YA 2019.

3. Dividend Distributions

3.1 Under the one-tier corporate tax system in Singapore, dividend paid by a Singapore tax resident company can be distributed to its shareholders as Singapore tax exempt (one-tier) dividends.

3.2 Singapore does not currently impose withholding tax on dividends paid to resident or non-resident shareholders.

APPENDIX K: TAXATION

4. Capital Gains Tax

- 4.1 Singapore does not impose tax on capital gains. Gains derived from the disposal of the Shares which are acquired for long term investment purposes are generally considered to be capital in nature and not subject to Singapore tax. On the other hand, where the taxpayer is deemed by the IRAS to be carrying on a trade or business in Singapore of dealing in shares, the gains from the disposal of shares are likely to be regarded as revenue in nature and subject to Singapore income tax. Shareholders should consult their own professional advisers on the Singapore tax consequences that may apply to their individual circumstances.
- 4.2 For any disposal of the Shares during the period 1 June 2012 to 31 May 2022 (both dates inclusive) by companies, there is certainty that any gains derived by the seller (a divesting company) from its disposal of the Shares would not be taxable if, immediately prior to the date of share disposal, the divesting company has held at least 20% of the Shares for a continuous period of at least 24 months. Note that the above does not apply in certain circumstances.
- 4.3 In addition, under SFRS(I) 9 *Financial Instruments*, Shareholders may be taxed on fair value gains or losses (not being gains or losses in the nature of capital) even though no sale or disposal of the Shares is made. Shareholders who may be subject to such treatment should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding and disposal of the Shares.

Foreign sellers are advised to consult their own tax advisers to take into account the applicable tax laws of their respective home countries or countries of residence as well as the provisions of any applicable double taxation agreement.

5. Bonus Shares

Any bonus shares received by Shareholders are generally not taxable.

6. Estate Duty

Singapore estate duty has been abolished with effect from 15 February 2008.

7. Stamp Duty

There is no stamp duty payable on the subscription for, allotment or holding of shares.

Where shares evidenced in certificated form are acquired in Singapore, stamp duty is payable on the instrument of transfer of shares at the rate of 0.2% of the purchase price or market value of the shares transferred, whichever is higher.

The purchaser is liable for stamp duty unless there is an agreement to the contrary. Stamp duty is not applicable to electronic transfers of shares through the scripless trading system given that that the transfer does not require instruments of transfer to be executed.

As the Shares are listed on Catalist and their transfers will be “scripless” transfers via the CDP, no stamp duty will be imposed on the transfers of the Shares via the CDP.

APPENDIX K: TAXATION

8. Goods and Services Tax (“GST”)

- 8.1 The sale of the Shares by a GST-registered investor belonging in Singapore through a SGX-ST member or to another person belonging in Singapore is an exempt supply not subject to GST. Any input GST incurred by the GST-registered investor in connection with the making of this exempt supply is generally not recoverable and will become an additional cost to the investor unless the investor satisfies certain conditions prescribed under the GST legislation or satisfies certain GST concessions.
- 8.2 Where the Shares are sold by a GST-registered investor in the course or furtherance of a business carried on by such an investor to a person belonging outside Singapore (and who is outside Singapore at the time of supply), the sale is a taxable supply subject to GST at zero-rate (i.e. 0%). Any input GST incurred by the GST-registered investor in the making of this zero-rated supply in the course or furtherance of his business will, subject to the provisions of the Goods and Services Tax Act, be recoverable from the Comptroller of GST.
- 8.3 Services such as brokerage, handling and clearing services rendered by a GST-registered person to an investor belonging in Singapore in connection with the investor’s purchase or sale of the Shares will be subject to GST at the prevailing rate (currently 7%). Similar services rendered to an investor belonging outside Singapore should, subject to certain conditions, qualify for zero-rating (i.e. subject to GST at zero-rate).
- 8.4 Shareholders, whether or not domiciled in Singapore, should consult their own tax advisers on the recoverability of GST incurred on expenses in connection with the purchase and sale of the Shares.

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

The proposed amendments to the Existing Constitution are set out below. It is proposed that the following Articles in the Existing Constitution be amended in the following manner where text in strikethrough indicates deletions from and underlined text indicates additions to the Existing Constitution.

Article 5

5. **SPECIAL RIGHTS.** Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to compliance with the Companies Act and Catalist Rules, the Directors may allot and issue shares or grant options over or otherwise dispose of the same to such persons at such terms and conditions and for such consideration and at such time and subject or not to the payment of any part of the amount thereof in cash as the Directors may think fit, and any share with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Directors may deem fit; **PROVIDED ALWAYS THAT:** (a) the rights attaching to shares of a class other than ordinary shares must be expressed in these Articles; and (b) the total valuenumber of issued preference shares shall not at any time exceed the total valuenumber of issued ordinary shares of the company

Article 12

12. **OFFER OF NEW SHARES.**

- (1) Subject to any direction to the contrary that may be given by the Company in general meeting or except as permitted under Singapore Exchange's listing rules, all new shares of whatever kind shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined. After the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article.
- (2) ~~Approval of the Company's shareholders referred to in Article 12(1) is not required if the shareholders have by ordinary resolution in a general meeting given a general mandate to the Directors of the Company, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to issue shares, provided that the aggregate number of shares to be issued pursuant to the resolution does not exceed 50% of the Company's existing issued share capital, of which the aggregate number of shares issued other than on a pro rata basis to existing shareholders does not exceed 20% of the Company's existing share capital. Such a general mandate shall only remain in force until:-~~
- (i) ~~the conclusion of the first annual general meeting of the Company following the passing of the resolution at which time it shall lapse unless, by ordinary resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or~~

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

~~(ii) revoked or varied by ordinary resolution of the shareholders in general meeting whichever occurs first.~~

(2) Notwithstanding Article 12(1), the Company may by ordinary resolution or special resolution (as the case may be) in general meeting give the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the ordinary resolution or special resolution (as the case may be), to:

(a) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, “Instruments”) that might or would require shares to be issued including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other Instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

(b) (notwithstanding that the authority conferred by the ordinary resolution or special resolution (as the case may be) may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the ordinary resolution or special resolution (as the case may be) was in force,

provided that:

(1) if the mandate is approved by ordinary resolution, a limit of not more than 100% of the total number of issued shares (excluding treasury shares and subsidiary holdings), of which the aggregate number of shares issued other than on a pro rata basis to existing shareholders must be not more than 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings);

(2) if the mandate is approved by special resolution, a limit of not more than 100% of the total number of issued shares (excluding treasury shares and subsidiary holdings), whether or not on a pro rata basis;

(3) in exercising the authority conferred by the ordinary or special resolution (as the case may be) to make or grant Instruments (including the making of any adjustments under any relevant Instrument), the Company shall comply with the rules and regulations of the Singapore Exchange for the time being in force (unless such compliance is waived by the Singapore Exchange) and these Articles; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by the ordinary resolution or special resolution (as the case may be) shall continue in force until the conclusion of the annual general meeting of the Company following the passing of the ordinary resolution or special resolution (as the case may be), or the date by which such annual general meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Act and the listing rules of the Singapore Exchange (whichever is the earliest).

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

Article 13

13. **SHARE CERTIFICATES.** Subject to the Act and the listing rules of the Singapore Exchange, securities will be allotted and certificates issued in the name of and despatched to every person whose name is entered as a Member in the Register of Members within ten market days of the final applications closing date for an issue of securities and within fifteen market days (or such period as may be approved by the Singapore Exchange) after the lodgement of any registrable transfer. Every person whose name is entered as a Member in the Register of Members shall be entitled without payment to one certificate under the seal of the Company in respect of each class of shares held by him for all his shares in that class specifying the shares allotted or transferred to him and the amount paid up and the amount (if any) unpaid thereon or several certificates in reasonable denominations each for one or more of his shares in any one class upon payment of \$2.00 (or such lesser sum as the Directors shall from time to time determine) for every certificate after the first. Stamp duty, if any, payable on such certificate shall be borne by such Member unless otherwise directed by the Directors; PROVIDED ALWAYS THAT in the case of joint holders the Company shall not be bound to issue more than one certificate and delivery of such certificate to any one of them shall be sufficient delivery to all such holders. PROVIDED FURTHER THAT the Company shall not be bound to register more than three persons as the holders of any share except in the case of executors, trustees or administrators of the estate of a deceased Member.

Article 15

15. **COMPANY TO HAVE LIEN ON SHARES AND DIVIDENDS.** The Company shall have a first and paramount lien on every share not being a fully-paid share provided that such lien shall be restricted to unpaid calls and instalments upon the specific shares in respect of which such monies are due and unpaid and to such for all monies (whereas presently payable or not) called or payable at a fixed time in respect of such share, and for all monies as the Company may be called upon by law to pay in respect of the shares of the Member or deceased Member. The Company's lien, if any, on a share shall extend to all dividend payable thereon.

Articles 53 and 54

53. **ANNUAL GENERAL MEETINGS.** Subject to the Statutes, an annual general meeting of the Company shall be held once in every calendar year, at such time and place in Singapore as may be determined by the Directors, but so that not more than fifteen months shall be allowed to elapse between any two such annual general meetings and the interval between the close of the Company's financial year and the date of the Company's forthcoming annual general meeting shall not be more than four months or such other period as prescribed by the Singapore Exchange's listing rules (as from time to time amended or supplemented).
54. **ANNUAL AND EXTRAORDINARY GENERAL MEETINGS.** The abovementioned general meetings shall be called annual general meetings. All other general meetings shall be called extraordinary general meetings and shall be held at such time and place in Singapore as may be determined by the Directors.

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

Article 56

56. **NOTICE OF MEETING.** Subject to ~~any requirements~~the provisions of Sections 184 and 185 of the Act or the listing rules of the Singapore Exchange relating to the convening of meetings (including to pass special resolutions and resolutions of which special notice is required), twenty-one days' notice at least (excluding the date on which the notice is served or deemed to be served and the date of the meeting for which the notice is given) for meetings to pass special resolutions and fourteen days' notice at least (excluding the date on which the notice is served or deemed to be served and the date of the meeting for which the notice is given) for all other meetings, specifying the place, the day and the hour of meeting, shall be given in the manner hereinafter mentioned to such persons as are under the provisions of these Articles entitled to receive notices of general meetings from the Company, but with the consent of all persons for the time being entitled as aforesaid, a meeting may be convened upon a shorter notice, and in such manner as such persons may approve. Any notice of a meeting called to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business. At least fourteen days' notice of every such meeting shall be given by advertisement in the daily press and in writing to the Singapore Exchange. The accidental omission to give such notice to, or the non-receipt of such notice by, any such person shall not invalidate the proceedings or any resolution passed at any such meeting.

Articles 62A, 63 and 64

- 62A. **VOTING BY POLL.** If required by the listing rules of the Singapore Exchange, all resolutions at any General Meetings shall be voted by poll (unless such requirement is waived by the Singapore Exchange).
63. **HOW RESOLUTION DECIDED.** Subject to Article 62A, Aat any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless before or on the declaration of the result of the show of hands a poll is demanded by the Chairman or by any person for the time being entitled to vote at the meeting, and unless a poll is so demanded a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or carried by a particular majority, or lost, shall be conclusive, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence thereof without proof of the number or proportion of the votes recorded in favour of or against such resolution.
64. **HOW POLL TO BE TAKEN.** A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll required under Article 62A or demanded under Article 63 on any other question shall be taken at such time and place, and in such manner as the Chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was required or demanded. Any business other than that upon which a poll is required or has been demanded may be proceeded with at a meeting pending the taking of the poll. The Chairman of the meeting may (and if required by the listing rules of the Singapore Exchange or if so directed by the general meeting, shall) appoint at least one scrutineer who shall be independent of the persons undertaking the polling process and may adjourn the general meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

Article 66

66. **NUMBER OF VOTES.** Subject to any rights or restrictions for the time being attached to any class or classes of shares, every Member present in person and each proxy and each attorney shall have on vote on a show of hands and on a poll, every Member present in person or by proxy shall have one vote for each share which he holds or represents and upon which all calls due are paid to the Company PROVIDED THAT a Depositor shall only be entitled to attend any general meeting and to speak and vote thereat if his name appears on the Depository Register forty-eight hours before the general meeting as a Depositor on whose behalf the Depository holds shares in the Company, the Company being entitled then to deem each such Depositor as holding such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of the Depository as supplied by the Depository to the Company, or where a Depositor has appointed a proxy, such proxy as representing such number of shares.

Article 71

71. **APPOINTMENT OF PROXIES.**

- (1) A Member may appoint not more than two proxies to attend and vote at the same general meeting.
- (2) Where the Member appoints more than one proxy to attend and vote at the same general meeting he shall specify on each instrument of proxy the number of shares in respect of which the appointment is made, failing which, the appointment shall be deemed to be in the alternative.
- (3) No instrument appointing a proxy of a Depositor shall be rendered invalid merely by reason of any discrepancy between the Depositor's shareholding specified in the instrument of proxy, or where the same has been apportioned between two proxies the aggregate of the proportions of the Depositor's shareholding they are specified to represent, and the true balance standing to the Securities Account of the Depositor as appears on the Depository Register forty-eight hours before the general meeting. In the event of such discrepancy, the Directors shall be entitled to deem such Proxy to represent the true balance standing to the Securities Account of the Depositor as appears on the Depository Register forty-eight hours before the general meeting, or where two proxies have been appointed by such Depositor, to apportion the said number of shares standing to his Securities Account between the two proxies in the same proportion as specified by the Depositor in appointing the proxies.
- (4) A proxy or representative need not be a Member.
- (5) The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
- (6) A Member who has deposited an instrument appointing any number of proxies to vote on his behalf at a general meeting shall not be precluded from attending and voting in person at that general meeting. Any such appointment of all the proxies concerned shall be deemed to be revoked upon the attendance of the Member appointing the proxy/proxies at the relevant general meeting.

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

Article 76A

- 76A. **INDEPENDENT DIRECTORS.** The Board of Directors shall have at least two non-executive directors who are independent and free of any material business or financial connection with the Company. Independent directors must comprise at least one-third of the Board. In the event of any retirement or resignation which renders the Company unable to meet any of the foregoing requirements, the Company shall endeavour to fill the vacancy within two months, but in any case not later than three months.

Article 79

79. **ALTERNATE DIRECTORS.** Any Director may from time to time and at any time appoint any person (~~not disapproved~~approved by a majority of the other Directors for the time being and who shall not be a person who is already a Director of the Company and who is not already an alternate Director of the Company) to be alternate Director of the eCompany, and may at any time remove the alternate Director so appointed by him from office. An alternate Director so appointed shall be entitled to receive remuneration from the Company and to receive notices of and attend all meetings of the Directors, and to vote as a Director at any such meeting at which the Director appointing him is not present, and generally in the absence of his appointor to perform all the functions of his appointor as a Director. Any fee paid by the Company to the alternate Director shall be deducted from the remuneration payable to his appointor. All appointments and removals of alternate Directors made by any Director in pursuance of the provisions of this Article shall be in writing under the hand of the Director making the same and left at the Office. The nomination of an alternate Director shall be valid if made by cable or telegram; PROVIDED ALWAYS THAT such nomination shall be confirmed within three months from the date of such cable or telegram by a written nomination complying with the abovementioned requirements, and any act done by the alternate Director nominated in such cable or telegram between the date thereof and the date of the receipt within the prescribed period by the Company of the written nomination shall be as valid and effectual as if such alternate Director had been duly appointed in the first instance, whether such written nomination shall be received by the Company within the prescribed period or not.

Article 84

84. **MANAGING DIRECTORS.** The Directors may from time to time and at any time appoint one or more of their body to be Managing Director or Managing Directors for a term not exceeding five years upon such terms and at such remuneration (whether by way of salary or commission or participation in profits, or by any or all of these modes or otherwise) as they may think fit, and a Director so appointed shall ~~not~~, while holding that office, be subject to retirement by rotation and he shall ~~not~~ be taken into account in determining the rotation of retirement of Directors or the number of Directors to retire, ~~but~~and he shall, subject to the provisions of any contract between him and the Company, be subject to the same provisions as to resignation and removal as the other Directors of the Company, and if he ceases to hold the office of Director he shall ipso facto and immediately cease to be a Managing Director. A Managing Director shall at all times be subject to the control of the Directors.

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

Article 93

93. **OFFICE OF DIRECTOR VACATED IN CERTAIN CASES.** Subject as herein otherwise provided or to the terms of any subsisting agreement, the office of a Director shall be vacated:–
- (1) if a receiving order is made against him or he makes any arrangement or composition with his creditors;
 - (2) if he is prohibited from being a Director by reason of any order made under any provision of the Statutes;
 - (3) if he is found lunatic or becomes of unsound mind;
 - (4) if he resigns his office by notice in writing to the Company; ~~or~~
 - (5) if he becomes bankrupt during his term of office; or
 - (6) if he is disqualified from acting as a director in any jurisdiction for reasons other than on technical grounds.

Article 96

96. **VACANCY TO BE FILLED BY DIRECTORS.** Any vacancy occurring in the Board of Directors may be filled up by the Directors or the Members in the general meeting. A Director so appointed by the Directors shall retire from office at the next following annual general meeting but shall be eligible for re-election.

Article 119

119. **ACCOUNTS TO BE LAID BEFORE COMPANY.** Once at least in every year at intervals of not more than fifteen months, but in any event before the expiry of four months from the close of a financial year of the Company the Directors shall lay before the Company at its annual general meeting a profit and loss account and balance sheet for the period following the preceding account or (in the case of the first account) since the incorporation of the Company, made up to a date not more than four months before such meeting. The said account and balance sheet shall be accompanied by such reports and documents and shall contain such particulars as are ~~required~~prescribed by ~~Section 201 of the Act and the listing rules of the Singapore Exchange,~~ and shall be sent to all persons entitled to receive notices of general meetings of the Company not less than fourteen (14) days before the date of the general meeting (or such other period as may be prescribed or approved under applicable laws), provided that:
- (1) these documents may be sent less than fourteen (14) days before the date of the meeting if all persons entitled to receive notices of general meetings from the Company so agree; and
 - (2) this Article does not require a copy of these documents to be sent to more than one of any joint holders or to any person of whose address the Company is not aware.

APPENDIX L: PROPOSED AMENDMENTS TO THE EXISTING CONSTITUTION

Article 128

128. **COLLECTION, USE AND DISCLOSURE OF PERSONAL DATA.** A Member who is a natural person is deemed to have consented to the collection, use and disclosure of his personal data (whether such personal data is provided by that Member or is collected through a third party) by the Company (or its agents or service providers) from time to time for any of the following purposes:
- (1) implementation and administration of any corporate action by the Company (or its agents or service providers);
 - (2) internal analysis and/or market research by the Company (or its agents or service providers);
 - (3) investor relations communications by the Company (or its agents or service providers);
 - (4) administration by the Company (or its agents or service providers) of the Member's holding of shares in the Company;
 - (5) implementation and administration of any service provided by the Company (or its agents or service providers) to its Members to receive notices of meetings, annual reports and other shareholders communications and/or for proxy appointment, whether by electronic means or otherwise;
 - (6) processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for any general meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to any general meeting (including any adjournment thereof);
 - (7) implementation and administration of, and compliance with, any provision of these Articles;
 - (8) compliance with any applicable laws, listing rules, take-over rules, regulations and/or guidelines; and
 - (9) purposes which are reasonably related to any of the above purposes.

Article 129

129. **PERSONAL DATA OF PROXIES AND/OR REPRESENTATIVES.** Any Member who appoints a proxy and/or representative for any general meeting and/or any adjournment thereof is deemed to have warranted that where such Member discloses the personal data of such proxy and/or representative to the Company (or its agents and service providers), that Member has obtained the prior consent of such proxy and/or representative for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy and/or representative for the purposes specified in Article 128, and is deemed to have agreed to indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of such Member's breach of warranty.

APPENDIX M: NEW CONSTITUTION

THE COMPANIES ACT, CAP. 50
PUBLIC COMPANY LIMITED BY SHARES
ARTICLES OF ASSOCIATION
OF
LERENO BIO-CHEM LTD.

TABLE A

1. **TABLE A EXCLUDED.** The regulations in Table A in the Fourth Schedule to the Act shall not apply to the Company except so far as the same are repeated or contained in these Articles.

INTERPRETATION

2. **INTERPRETATION CLAUSE.** In these Articles the words standing in the first column of the Table next hereinafter contained shall bear the meanings set opposite to them respectively in the second column thereof, if not inconsistent with the subject or context.

WORDS

MEANINGS

Account Holder	...	A person who has an account directly with the Depository and not through a Depository Agent.
Act	...	The Companies Act (Cap. 50) and every other Act for the time being in force concerning companies and affecting the Company and any amendments to the same from time to time.
Articles	...	These Articles of Association as originally framed or as altered from time to time by special resolution.
Depositor	...	An Account Holder or a Depository Agent but does not include a Sub-Account Holder.
Depository	...	The Central Depository (Pte) Limited established by the Singapore Exchange, or any other corporation approved by the Minister as a depository company or corporation for the purposes of the Act, which as a bare trustee operates the Central Depository System for the holding and transfer of book-entry securities.

APPENDIX M: NEW CONSTITUTION

Depository Agent	...	A member company of the Singapore Exchange, a trust company (registered under the Trust Companies Act), a banking corporation or merchant bank (approved by the Monetary Authority of Singapore under the Monetary Authority of Singapore Act) or any other person or body approved by the Depository who or which (a) performs services as a depository agent for Sub-Account Holders in accordance with the terms of a depository agent agreement entered into between the Depository and the depository agent; (b) deposits book-entry securities with the Depository on behalf of the Sub-Account Holders; and (c) establishes an account in its name with the Depository.
Depository Register	...	The register of holders maintained by the Depository in respect of book-entry securities (as defined in the Act).
Directors	...	The Directors for the time being of the Company.
Electronic Communication	...	Shall have the meaning ascribed to it in the Act and shall include any statutory modification, amendment or re-enactment thereof.
Market Day	...	A day on which the Singapore Exchange is open for securities trading.
Member (and any references to a holder of any shares or shareholder)	...	Any registered holder of shares in the Company, or where such registered holder of any shares or shareholder is the Depository, the Depositors on whose behalf the Depository holds the shares. References to “Member” and “holder” shall where the Act requires, exclude the Company in relation to shares held by it as Treasury Shares.
Office	...	The registered office for the time being of the Company.
Seal	...	The Common Seal of the Company.
Securities Account	...	The securities account maintained by a Depositor with the Depository.
SGX-ST or Singapore Exchange	...	Singapore Exchange Securities Trading Limited.
Sub-Account Holder	...	The holder of an account maintained with a Depository Agent.

APPENDIX M: NEW CONSTITUTION

Statutes	...	The Act and every other legislation for the time being in force concerning companies and affecting the Company. Any reference herein to any enactment is a reference to that enactment as for the time being amended or reenacted.
Treasury Share	...	Shall have the meaning ascribed to it in the Act and shall include any statutory modification, amendment or reenactment thereof.

The expression "Secretary" shall include any person appointed by the Directors to perform any of the duties of the Secretary of the Company and where two or more persons are appointed to act as Joint Secretaries shall include any one of those persons. Expressions referring to writing shall, unless the contrary intention appears, be construed as including references to printing, lithography, photography, and other modes of representing or reproducing words in a visible form.

Words denoting the singular shall include the plural and vice versa. Words denoting the masculine gender only shall include the feminine gender. Words denoting persons shall include corporations.

Subject as aforesaid, any words or expressions defined in the Statutes shall, unless the context otherwise requires, bear the same meanings in these Articles.

SHARES

3. ISSUE OF SHARES.

- (1) The shares taken by the subscribers to the Memorandum of Association shall be issued by the Directors. Subject to these Articles, the shares shall be under the control of the Directors, who may allot and issue the same to such persons on such terms and conditions and at such times as the Directors think fit; provided that no shares may be issued by the Directors without the prior approval of shareholders at general meeting and the provisions of Article 12 shall be complied with.
- (2) No share shall be issued so as to transfer a controlling interest (as defined in the listing rules of the Singapore Exchange) in the Company without the prior approval of the shareholders in a general meeting.

4. **REPURCHASE OF SHARES.** Subject to the provisions of the Act, the Company may purchase any of its own ordinary shares in the issued share capital of the Company on such terms and in such manner as the Company may from time to time think fit. If required by the Statutes, any share which is so purchased or acquired by the Company shall, unless held as treasury shares in accordance with the Statutes, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to these Articles and the Act, the amount of share capital of the Company shall be reduced accordingly.

APPENDIX M: NEW CONSTITUTION

- 4A. **TREASURY SHARES.** The Company shall not exercise any right in respect of Treasury Shares other than as provided by the Act. Subject thereto, the Company may hold or deal with its Treasury Shares in the manner authorised by, or prescribed pursuant to, the Act.
5. **SPECIAL RIGHTS.** Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to compliance with the Companies Act and Catalist Rules, the Directors may allot and issue shares or grant options over or otherwise dispose of the same to such persons at such terms and conditions and for such consideration and at such time and subject or not to the payment of any part of the amount thereof in cash as the Directors may think fit, and any share with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Directors may deem fit; PROVIDED ALWAYS THAT: (a) the rights attaching to shares of a class other than ordinary shares must be expressed in these Articles; and (b) the total number of issued preference shares shall not at any time exceed the total number of issued ordinary shares of the Company.
6. **PREFERENCE SHARES.** Subject to Section 70 of the Act, any preference shares may be issued on the terms that they are, or at the option of the Company are liable, to be redeemed. The Company shall also have the power to issue further preference shares ranking equally with or in priority to any preference shares already issued.
7. **RIGHTS OF PREFERENCE SHAREHOLDERS.** Holders of preference shares shall have the same rights as ordinary shareholders as regards receiving notices, reports and balance sheets, and attending general meetings of the Company. They shall have the right to vote at any meeting convened for the purpose of reducing the capital or winding up or sanctioning a sale of the undertaking of the Company, or where the proposition to be submitted to the meeting directly affects their rights and privileges, or when the dividends on the preference shares are in arrears for more than six months.
8. **MODIFICATION OF RIGHTS OF PREFERENCE SHAREHOLDERS.** The repayment of preference capital other than redeemable preference capital, or any alteration of preference shareholders' rights, may only be made pursuant to a special resolution of the preference shareholders concerned; PROVIDED ALWAYS THAT where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing, if obtained from the holders of the three-fourths of the preference shares concerned within two months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.
9. **RIGHTS NOT VARIED BY ISSUE OF ADDITIONAL SHARES.** The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.
10. **COMMISSION ON SUBSCRIPTION.** The Company may pay a commission or brokerage on any issue of shares at such rate or amount and in such manner as the Directors deem fit to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any shares in the Company. Subject to the provisions of Section 63 of the Act, such commission or brokerage may be satisfied by the payment of cash or the allotment of fully paid shares or partly in one way and partly in the other.

APPENDIX M: NEW CONSTITUTION

11. **NO TRUSTS RECOGNISED.** No person, other than the Depository, shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be required in any way to recognise (even when having notice thereof) any equitable, contingent future or partial interest in any share or any other rights in respect of any share other than an absolute right to the entirety thereof in the registered holder, except only as by these Articles otherwise provided for or as required by the Statutes or pursuant to any order of Court.

12. **OFFER OF NEW SHARES.**

(1) Subject to any direction to the contrary that may be given by the Company in general meeting or except as permitted under Singapore Exchange's listing rules, all new shares of whatever kind shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined. After the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article.

(2) Notwithstanding Article 12(1), the Company may by ordinary resolution or special resolution (as the case may be) in general meeting give the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the ordinary resolution or special resolution (as the case may be), to:

- (a) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other Instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

- (b) (notwithstanding that the authority conferred by the ordinary resolution or special resolution (as the case may be) may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the ordinary resolution or special resolution (as the case may be) was in force,

provided that:

- (1) if the mandate is approved by ordinary resolution, a limit of not more 100% of the total number of issued shares (excluding treasury shares and subsidiary holdings), of which the aggregate number of shares issued other than on a pro rata basis to existing shareholders must be not more than 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings);

APPENDIX M: NEW CONSTITUTION

- (2) if the mandate is approved by special resolution, a limit of not more than 100% of the total number of issued shares (excluding treasury shares and subsidiary holdings), whether or not on a pro rata basis;
 - (3) in exercising the authority conferred by the ordinary or special resolution (as the case may be) to make or grant Instruments (including the making of any adjustments under any relevant Instrument), the Company shall comply with the rules and regulations of the Singapore Exchange for the time being in force (unless such compliance is waived by the Singapore Exchange) and these Articles; and
 - (4) (unless revoked or varied by the Company in general meeting) the authority conferred by the ordinary resolution or special resolution (as the case may be) shall continue in force until the conclusion of the annual general meeting of the Company following the passing of the ordinary resolution or special resolution (as the case may be), or the date by which such annual general meeting of the Company is required by law to be held, or the expiration of such other period as may be prescribed by the Act and the listing rules of the Singapore Exchange (whichever is the earliest).
13. **SHARE CERTIFICATES.** Subject to the Act and the listing rules of the Singapore Exchange, securities will be allotted and certificates issued in the name of and despatched to every person whose name is entered as a Member in the Register of Members within ten market days of the final applications closing date for an issue of securities and within fifteen market days (or such period as may be approved by the Singapore Exchange) after the lodgement of any registrable transfer. Every person whose name is entered as a Member in the Register of Members shall be entitled without payment to one certificate under the seal of the Company in respect of each class of shares held by him for all his shares in that class specifying the shares allotted or transferred to him and the amount paid up and the amount (if any) unpaid thereon or several certificates in reasonable denominations each for one or more of his shares in any one class upon payment of \$2.00 (or such lesser sum as the Directors shall from time to time determine) for every certificate after the first. Stamp duty, if any, payable on such certificate shall be borne by such Member unless otherwise directed by the Directors; PROVIDED ALWAYS THAT in the case of joint holders the Company shall not be bound to issue more than one certificate and delivery of such certificate to any one of them shall be sufficient delivery to all such holders. PROVIDED FURTHER THAT the Company shall not be bound to register more than three persons as the holders of any share except in the case of executors, trustees or administrators of the estate of a deceased Member.
14. **RENEWAL OF CERTIFICATES.** Subject to the provisions of the Act, if any share certificates shall be worn out, defaced, destroyed, lost or stolen, it may be renewed on payment of such fee not exceeding \$2.00 as the Directors may from time to time require and on such terms, if any, as to evidence and indemnity, being given by the shareholder, transferee, person entitled, purchaser, member company of the Singapore Exchange or on behalf of its/their client(s) as the Directors shall require, as the Directors think fit and, in the case of defacement or wearing out, on delivery up of the old certificate. In the case of destruction, loss or theft, a shareholder or person entitled to whom such renewed certificate is given shall also bear the loss and pay to the Company all expenses incidental to the investigations by the Company of the evidence of such destruction or loss.

APPENDIX M: NEW CONSTITUTION

LIEN

15. **COMPANY TO HAVE LIEN ON SHARES AND DIVIDENDS.** The Company shall have a first and paramount lien on every share not being a fully-paid share provided that such lien shall be restricted to unpaid calls and instalments upon the specific shares in respect of which such moneys are due and unpaid and to such monies as the Company may be called upon by law to pay in respect of the shares of the Member or deceased Member. The Company's lien, if any, on a share shall extend to all dividends payable thereon.
16. **LIEN MAY BE ENFORCED BY SALE OF SHARES.** The Directors may sell any shares subject to such lien at such time or times and in such manner as they think fit, but no sale shall be made until such time as the moneys in respect of which such lien exists or some part thereof are or is presently payable or a liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged, and until a demand and notice in writing stating the amount due or specifying the liability or engagement and demanding payment or fulfilment or discharge thereof, and giving notice of intention to sell in default, shall have been served on such Member or the persons (if any) entitled by transmission to the shares, and default in payment, fulfillment or discharge shall have been made by him or them for seven days after such notice.
17. **DIRECTORS MAY AUTHORISE TRANSFER AND ENTER PURCHASER'S NAME IN REGISTER.** To give effect to any such sale the Directors may authorise some person to transfer the shares sold to the purchaser and may enter the purchaser's name in the Register of Members as holder of the shares, and the purchaser shall not be bound to see to the application of the purchase money, nor shall his title to the shares be effect by any irregularity or invalidity in the proceedings in reference to the sale.
18. **APPLICATION OF PROCEEDS OF SALE.** The net proceeds of sale whether of a share forfeited by the Company or of a share over which the Company has a lien, shall be applied in or towards satisfaction of the amount due to the Company, or of the liability or engagement, as the case may be, and any residue after the satisfaction of the unpaid calls and accrued interest and expenses, shall be paid to the person whose shares have been forfeited, or his executors, administrators or assignees or as he directs.
19. **MEMBER NOT ENTITLED TO PRIVILEGES OF MEMBERSHIP UNTIL ALL CALLS PAID.** No Member shall be entitled to receive any dividend or to exercise any privilege as a Member until he shall have paid all calls for the time being due and payable on every share held by him and whether alone or jointly with any other person, together with interest and expenses (if any).

CALLS ON SHARES

20. **DIRECTORS MAY MAKE CALLS.** The Directors may, subject to the provisions of these Articles, from time to time make such calls upon the Members in respect of all moneys unpaid on their shares as they think fit; PROVIDED ALWAYS THAT fourteen days' notice at least is given of each call and each Member shall be liable to pay the amount of every call so made upon him to the persons, by the instalments (if any) and at the times and places appointed by the Directors.
21. **WHEN CALL DEEMED TO HAVE BEEN MADE.** A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.

APPENDIX M: NEW CONSTITUTION

22. **LIABILITY OF JOINT HOLDERS.** The joint holders of a share shall be jointly and severally liable to pay all calls and instalments in respect thereof.
23. **INTEREST ON UNPAID CALL.** If before or on the day appointed for payment thereof a call or instalment payable in respect of a share is not paid, the person from whom the same is due shall pay interest on the amount of the call or instalment at such rate as the Directors shall fix from the day appointed for payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part.
24. **PAYMENT IN ADVANCE OF CALLS.** Any Member may pay to the company and the Directors may, if they think fit, receive from any Member willing to advance the same, all or any part of the monies for the time being remaining uncalled on his shares but the monies so paid in advance shall not, whilst carrying interest, confer a right to participate in the profits of the Company.
25. **MONIES PAID IN ADVANCE OF CALLS.** In respect of any monies paid in advance of any call, or so much thereof as exceeds the amount for the time being called up on the shares in respect of which such advance has been made, the Directors may pay or allow such interest as may be agreed between them and such Member, in addition to the dividend payable upon such part of the share in respect of which such advance has been made as is actually called up.
26. **SUM PAYABLE ON ALLOTMENT DEEMED TO BE A CALL.** Any sum which by the terms of allotment of a share is made payable upon allotment or at any fixed date on account of the number(s) of share(s), shall, for all purposes of these Articles, be deemed to be a call duly made and payable on the date fixed for payment, and in case of non-payment the provisions of these Articles as to payment of interest and expenses, forfeiture and the like, and all the relevant provisions of these Articles, shall apply as if such sum were a call duly made and notified as hereby provided.
27. **DIFFERENCE IN CALLS.** The Directors may, from time to time, make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and in the time of payment of such calls.

TRANSFER OF SHARES

28. **TRANSFER OF SHARES.**
- (1) There shall be no restriction on the transfer of fully paid up shares (except where required by law, the listing rules of any stock exchange upon which the shares of the Company may be listed or the rules and/or bye-laws governing any stock exchange upon which the shares of the Company may be listed) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien and in the case of shares not fully paid-up may refuse to register a transfer to a transferee of whom they do not approve, provided always that in the event of the Directors refusing to register a transfer of shares, they shall within ten market days beginning with the days on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.

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- (2) The Directors may in their sole discretion refuse to register any instrument of transfer of shares unless:–
- (a) all or any part of the stamp duty (if any) payable on each share certificate and such fee not exceeding \$2 as the Directors may from time to time require, is paid to the Company in respect thereof;
 - (b) the instrument of transfer is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by the certificates of the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person so to do;
 - (c) the instrument of transfer is in respect of only one class of shares; and
 - (d) the amount of the proper duty with which each share certificate to be issued in consequence of the registration of such transfer is chargeable under any law for the time being in force relating to stamps is tendered.
- (3) The provisions in these Articles relating to the transfer of shares shall not apply to any transactions affecting book-entry securities (as defined in the Act).
29. **FORM OF TRANSFER.** Every transfer shall be in writing in the form approved by the Singapore Exchange. Every instrument of transfer must be in respect of only one class of shares and must be duly stamped in accordance with any applicable law for the time being in force relating to stamp duty and shall be left at the Office accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer.
30. **TRANSFERS TO BE EXECUTED BY BOTH PARTIES.** The instrument of transfer of any share shall be executed by or on behalf of both the transferor and the transferee and be witnessed, PROVIDED ALWAYS THAT the Depository shall not be required to sign, as transferee, any transfer form relating to the transfer of shares to it and PROVIDED FURTHER THAT, at the discretion of the Directors, the signature of any other transferee may be dispensed with. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members in respect thereof.
31. **TRANSFER FEE.** The Company shall be entitled to charge a fee not exceeding \$2.00 for each instrument of transfer on the registration of every transfer.
32. **REGISTRATION OF TRANSFERS.** The Directors may decline to register any transfer unless all the preceding requirements are fully complied with. Subject to Article 32A, all instruments of transfer which are registered may be retained by the Company.
- 32A. **DESTRUCTION OF TRANSFER RECORDS.** Subject to any legal requirements to the contrary, the Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of six (6) years from the date of registration thereof and all dividend mandates and notifications of change of address at any time after the expiration of six (6) years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of six (6) years from the date of the cancellation thereof and it shall be conclusively presumed in the favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other documents so destroyed was duly and properly made and

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every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company PROVIDED THAT:

- (i) the provisions aforesaid shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant;
- (ii) nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any circumstances which would not attach to the Company in the absence of this Article; and
- (iii) references herein to the destruction of any document include references to the disposal thereof in any manner.

33. **REGISTRATION OF TRANSFERS MAY BE SUSPENDED.** The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine; PROVIDED ALWAYS THAT such registration shall not be suspended for more than thirty days in any year.

TRANSMISSION OF SHARES

34. **ON DEATH OF MEMBER, SURVIVOR OR EXECUTOR ONLY RECOGNISED.**

- (1) In the case of the death of a Member the survivor or survivors, where the deceased was a joint holder of shares, and the executors or administrators of the deceased, where he was a sole or only surviving holder of shares, shall be the only persons recognised by the Company as having any title to his shares, but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share jointly held by him.
- (2) The provisions in these Articles relating to the transmission of shares shall not apply to any transactions affecting book-entry securities (as defined in the Act).

35. **RETENTION OF DIVIDENDS ON SHARES PENDING TRANSMISSION.** The Directors may retain the dividends payable on shares in respect of which any person is under these Articles, as to the transmission of shares, entitled to become a Member, or which any person under these Articles is entitled to transfer, until such person shall become a Member in respect of such shares or shall duly transfer the same.

FORFEITURE OF SHARES

36. **PAYMENT OF CALL WITH INTEREST AND EXPENSES.** If any Member fails to pay the whole or any part of any call or instalment of a call on or before the day appointed for the payment thereof, the Directors may at any time thereafter, during such time as the call or instalment or any part thereof remains unpaid, serve a notice on him or on the person entitled to the share by transmission requiring him to pay such call or instalment or such part thereof as remains unpaid, together with interest at such rate as the Directors shall determine, and any expenses that may have accrued by reason of such non-payment.

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37. **NOTICE REQUIRING PAYMENT TO CONTAIN CERTAIN PARTICULARS.** The notice shall name a further day (not earlier than the expiration of seven days from the date of the notice) on or before which such call or instalment, or such part as aforesaid, and all interest and expenses that have accrued by reason of such non-payment, are to be paid. It shall also name the place where payment is to be made, and shall state that, in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made will be liable to be forfeited.
38. **ON NON-COMPLIANCE WITH NOTICE SHARES FORFEITED ON RESOLUTION OF DIRECTORS.** If the requirements of any such notice as aforesaid are not complied with, any share in respect of which such notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. A forfeiture of shares shall include all dividends in respect of the shares not actually paid before the forfeiture notwithstanding that they shall have been declared.
39. **NOTICE OF FORFEITURE TO BE GIVEN AND ENTERED IN REGISTER OF MEMBERS.** When any share has been forfeited in accordance with these Articles, notice of the forfeiture shall forthwith be given to the holder of the share or to the person entitled to the share by transmission, as the case may be, and an entry of such notice having been given and of the forfeiture with the date thereof, shall forthwith be made in the Register of Members opposite to the shares; but the provisions of this Article are directory only, and no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or to make such entry as aforesaid.
40. **DIRECTORS MAY ANNUL FORFEITURE UPON TERMS.** Notwithstanding any such forfeiture as aforesaid the Directors may, at any time before the forfeited share has been otherwise disposed of, annul the forfeiture upon the terms of payment of all calls and interest due thereon and all expenses incurred in respect of the share and upon such further terms (if any) as they shall see fit to impose.
41. **DIRECTORS MAY DISPOSE OF FORFEITED SHARES.** Every share which shall be forfeited may be sold, re-allotted or otherwise disposed of, either to the person who was before forfeiture the holder thereof or entitled thereto, or to any other person upon such terms and in such manner as the Director shall think fit, and the Directors may, if necessary, authorise some person to transfer the same to such other person as aforesaid.
42. **FORMER HOLDER OF FORFEITED SHARES LIABLE FOR CALL MADE BEFORE FORFEITURE.** A shareholder whose shares have been forfeited shall, notwithstanding such forfeiture, be liable to pay to the Company all calls made and not paid on such shares at the time of forfeiture, and interest thereon to the date of payment, in the same manner in all respects as if the shares had not been forfeited, and to satisfy all (if any) the claims and demands which the Company might have enforced in respect of the shares at the time of forfeiture, without any deduction of allowance for the value of the shares at the time of forfeiture.
43. **CONSEQUENCES OF FORFEITURE.** The forfeiture of a share shall involve the extinction at the time of forfeiture of all interests in and all claims and demands against the Company in respect of the share and all other rights and liabilities incidental to the share as between the shareholder whose share is forfeited and the Company, except only such of those rights and liabilities as are by these Articles expressly saved or as are by the Statutes given or imposed in the case of past Members.

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44. **TITLE TO FORFEITED SHARE.** A statutory declaration in writing that the declarant is a Director of the Company and that a share has been duly forfeited in pursuance of these Articles and stating the date upon which it was forfeited shall, as against all persons claiming to be entitled to the share adversely to the forfeiture thereof, be conclusive evidence of the facts therein stated, and such declaration, together with the receipt of the Company for the consideration (if any) given for the share on the sale or disposition thereof, and a certificate of proprietorship of the share under the Seal delivered to the person to whom the same is sold or disposed of, shall constitute a good title to the share, and (subject to the execution of any necessary transfer) such person shall be registered as the holder of the share and shall be discharged from all calls made prior to such sale or disposition, and shall not be bound to see to application of the purchase money (if any) nor shall his title to the share be affected by any act, omission or irregularity relating to or connected with the proceedings in reference to the forfeiture, sale, re-allotment or disposal of the share.

CONVERSION OF SHARES INTO STOCK

45. **POWER TO CONVERT INTO STOCK.** The Company may by ordinary resolution passed at a general meeting convert any paid up shares into stock and reconvert any stock into paid up shares.
46. **TRANSFER OF STOCK.** The holders of stock may transfer the same or any part thereof in the same manner and subject to the same regulations as and subject to which the shares from which the stock arose might previously to conversion have been transferred or as near thereto as circumstances admit; but the Directors may from time to time fix the minimum number of stock units transferable and restrict or forbid the transfer of fractions of that minimum.
47. **RIGHTS OF STOCKHOLDERS.** The holders of stock shall according to the number of the stock units held by them have the same rights privileges and advantages as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which the stock arose, but no such privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by any such number of stock units which would not if existing in shares have conferred that privilege or advantage.
48. **INTERPRETATION.** Such of the regulations of the Company as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” therein shall include “stock” and “stockholder”.

ALTERATION OF CAPITAL

49. [Article 49 was deleted in its entirety pursuant to the Special Resolution passed at an Extraordinary General Meeting held on 14 July 2007.]
50. **COMPANY MAY ALTER ITS CAPITAL.** The Company may by ordinary resolution:-
- (1) consolidate and divide all or any of its share capital; or

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- (2) sub-divide its existing shares, or any of them in accordance with the Act and listing rules of the Singapore Exchange and so that as between the resulting shares, one or more of such shares may by the resolution by which such subdivision is effected be given any preference or advantage as regards dividend, capital, voting or otherwise over the others or any other of such shares; or
 - (3) cancel any shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the number of the shares so cancelled.
51. **COMPANY MAY REDUCE ITS CAPITAL.** The Company may by special resolution reduce its share capital in any manner authorised and subject to any conditions prescribed by the Statutes.

MODIFICATION OF CLASS RIGHTS

52. **RIGHTS OF SHAREHOLDERS MAY BE ALTERED.** Subject to the provisions of Section 74 of the Act, all or any of the rights, privileges or conditions for the time being attached or belonging to any class of shares for the time being forming part of the share capital of the Company may from time to time be modified, affected, varied, extended or surrendered in any manner with the consent in writing of the holders who represent not less than three-fourths of the total voting rights of all the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the Members of that class. To any such separate meeting all the provisions of these Articles as to general meetings of the Company shall mutatis mutandis apply, but so that the necessary quorum shall be Members of the class holding or representing by proxy one-third of the total voting rights of all the issued shares of the class, and every holder of shares of the class in question shall be entitled on a poll to one vote for every such share held by him.

GENERAL MEETINGS

53. **ANNUAL GENERAL MEETINGS.** Subject to the Statutes, an annual general meeting of the Company shall be held once in every calendar year, at such time and place in Singapore as may be determined by the Directors, but so that not more than fifteen months shall be allowed to elapse between any two such annual general meetings and the interval between the close of the Company's financial year and the date of the Company's forthcoming annual general meeting shall not be more than four months or such other period as prescribed by the Singapore Exchange's listing rules (as from time to time amended or supplemented).
54. **ANNUAL AND EXTRAORDINARY GENERAL MEETINGS.** The abovementioned general meetings shall be called annual general meetings. All other general meetings shall be called extraordinary general meetings and shall be held at such time and place in Singapore as may be determined by the Directors.
55. **EXTRAORDINARY GENERAL MEETINGS.** The Directors may call an extraordinary general meeting whenever they think fit, and extraordinary general meetings shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by Section 176 of the Act.

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56. **NOTICE OF MEETING.** Subject to any requirements of the Act or the listing rules of the Singapore Exchange relating to the convening of meetings (including to pass special resolutions and resolutions of which special notice is required), twenty-one days' notice at the least (excluding the date on which the notice is served or deemed to be served and the date of the meeting for which the notice is given) for meetings to pass special resolutions and fourteen days' notice at least (excluding the date on which the notice is served or deemed to be served and the date of the meeting for which the notice is given) for all other meetings, specifying the place, the day and the hour of meeting, shall be given in the manner hereinafter mentioned to such persons as are under the provisions of these Articles entitled to receive notices of general meetings from the Company, but with the consent of all persons for the time being entitled as aforesaid, a meeting may be convened upon a shorter notice, and in such manner as such persons may approve. Any notice of a meeting called to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business. At least fourteen days' notice of every such meeting shall be given by advertisement in the daily press and in writing to the Singapore Exchange. The accidental omission to give such notice to, or the non-receipt of such notice by, any such person shall not invalidate the proceedings or any resolution passed at any such meeting.
57. **RESOLUTION SIGNED BY ALL MEMBERS AS EFFECTIVE AS IF PASSED AT GENERAL MEETING.** Subject to the Statutes, a resolution in writing signed by all the Members for the time being entitled to receive notice of and attend and vote at general meetings (or being corporations by their duly authorised representatives) shall be valid and effective as if the same had been passed at a general meeting of the Company duly convened and held, and may consist of several documents in the like form each signed by one or more Members.

PROCEEDINGS AT GENERAL MEETINGS

58. **SPECIAL BUSINESS.** All business shall be deemed special that is transacted at an extraordinary general meeting, and also all that is transacted at an annual general meeting, with the exception of declaring a dividend, the consideration of the accounts, balance sheets, and the reports of the Directors and Auditors, and any other documents annexed to the balance sheets, the election of Directors in the place of those retiring and the fixing of the remuneration of the Directors and the appointment and fixing of the remuneration of the Auditors.
59. **NO BUSINESS TO BE TRANSACTED UNLESS QUORUM PRESENT.** No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. For all purposes the quorum shall be two Members personally present or represented by proxy.
60. **IF NO QUORUM MEETING ADJOURNED OR DISSOLVED.** If within half an hour from the time appointed for the holding of a general meeting a quorum is not present, the meeting, if convened on the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week at the same time and place, and if at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the Members present shall be a quorum.

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61. **CHAIRMAN OF BOARD TO PRESIDE AT ALL MEETINGS.** The Chairman of the Directors shall preside as Chairman at every general meeting. In his absence, the Deputy Chairman, and in the absence of both the Chairman and the Deputy Chairman, the Vice-Chairman shall preside as Chairman at every general meeting. If at any meeting the Chairman, the Deputy Chairman or the Vice-Chairman is not present within fifteen minutes after the time appointed for holding the meeting or be unwilling to act, the Members present shall choose one of the Directors to be Chairman of the meeting, or if no Director be present or if all the Directors present decline to take the chair, one of their number present shall be Chairman.
62. **NOTICE OF ADJOURNED MEETINGS.** The Chairman may, with the consent of any meeting at which a quorum is present and shall, if so directed by the meeting, adjourn any meeting from time to time and from place to place as the meeting shall determine. Whenever a meeting is adjourned for ten days or more, notice of the adjourned meeting shall be given in the same manner as in the case of an original meeting. Save as aforesaid, no Member shall be entitled to any notice of any adjournment or of the business to be transacted at an adjourned meeting. No business shall be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.
- 62A. **VOTING BY POLL.** If required by the listing rules of the Singapore Exchange, all resolutions at any General Meetings shall be voted by poll (unless such requirement is waived by the Singapore Exchange).
63. **HOW RESOLUTION DECIDED.** Subject to Article 62A, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless before or on the declaration of the result of the show of hands a poll is demanded by the Chairman or by any person for the time being entitled to vote at the meeting, and unless a poll is so demanded a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or carried by a particular majority, or lost, shall be conclusive, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence thereof without proof of the number or proportion of the votes recorded in favour of or against such resolution.
64. **HOW POLL TO BE TAKEN.** A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll required under Article 62A or demanded under Article 63 on any other question shall be taken at such time and place, and in such manner as the Chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll required or was demanded. Any business other than that upon which a poll is required or has been demanded may be proceeded with at a meeting pending the taking of the poll. The Chairman of the meeting may (and if required by the listing rules of the Singapore Exchange or if so directed by the general meeting, shall) appoint at least one scrutineer who shall be independent of the persons undertaking the polling process and may adjourn the general meeting to some place and time fixed by him for the purpose of declaring the result of the poll.
65. **CHAIRMAN TO HAVE CASTING VOTE.** In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman shall be entitled to a second or casting vote.

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VOTES OF MEMBERS

66. **NUMBER OF VOTES.** Subject to any rights or restrictions for the time being attached to any class or classes of shares, every Member present in person and each proxy and each attorney shall have one vote on a show of hands and on a poll, every Member present in person or by proxy shall have one vote for each share which he holds or represents and upon which all calls due are paid to the Company PROVIDED THAT a Depositor shall only be entitled to attend any general meeting and to speak and vote thereat if his name appears on the Depository Register forty-eight hours before the general meeting as a Depositor on whose behalf the Depository holds shares in the Company, the Company being entitled then to deem each such Depositor as holding such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of the Depository as supplied by the Depository to the Company, or where a Depositor has appointed a proxy, such proxy as representing such number of shares.
- 66A. **VOTE IN ABSENTIA.** Subject to these Articles and any applicable legislation, the Directors may, at its sole discretion, approve and implement, subject to such security measures as may be deemed necessary or expedient, such voting methods to allow Members who are unable to vote in person at any general meeting the option to vote in absentia, including but not limited to voting by email, electronic mail or facsimile, if the shareholders so consent.
67. **SPLIT VOTES.** On a poll a Member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.
68. **VOTES OF JOINT HOLDERS OF SHARES.** In the case of joint holders any one of such persons may vote, but if more than one of such persons be present at a meeting, the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holder; and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
69. **VOTES OF LUNATIC MEMBER.** A person of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other legal curator and such last-mentioned persons may give their votes either personally or by proxy.
70. **MEMBERS INDEBTED TO COMPANY IN RESPECT OF SHARES NOT ENTITLED TO VOTE.** No Member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares held by him in the Company, whether in his own name or in a Securities Account, and whether alone or jointly with any other person, have been paid.
71. **APPOINTMENT OF PROXIES.**
- (1) A Member may appoint not more than two proxies to attend and vote at the same general meeting.
 - (2) Where the Member appoints more than one proxy to attend and vote at the same general meeting he shall specify on each instrument of proxy the number of shares in respect of which the appointment is made, failing which, the appointment shall be deemed to be in the alternative.

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- (3) No instrument appointing a proxy of a Depositor shall be rendered invalid merely by reason of any discrepancy between the Depositor's shareholding specified in the instrument of proxy, or where the same has been apportioned between two proxies the aggregate of the proportions of the Depositor's shareholding they are specified to represent, and the true balance standing to the Securities Account of the Depositor as appears on the Depository Register forty-eight hours before the general meeting. In the event of such discrepancy, the Directors shall be entitled to deem such Proxy to represent the true balance standing to the Securities Account of the Depositor as appears on the Depository Register forty-eight hours before the general meeting, or where two proxies have been appointed by such Depositor, to apportion the said number of shares standing to his Securities Account between the two proxies in the same proportion as specified by the Depositor in appointing the proxies.
 - (4) A proxy or representative need not be a Member.
 - (5) The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.
 - (6) A Member who has deposited an instrument appointing any number of proxies to vote on his behalf at a general meeting shall not be precluded from attending and voting in person at that general meeting. Any such appointment of all the proxies concerned shall be deemed to be revoked upon the attendance of the Member appointing the proxy/proxies at the relevant general meeting.
72. **INSTRUMENT APPOINTING A PROXY TO BE LEFT AT THE OFFICE.** The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority shall be deposited at the Office not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid PROVIDED THAT the Directors shall be entitled to reject any instrument of proxy lodged by any Depositor whose name does not appear on the Depository Register as a Depositor on whose behalf the Depository holds shares in the Company forty-eight hours before the general meeting at which the proxy is to act.
73. **FORM OF PROXY.** An instrument appointing a proxy or representative shall be in writing in the common form or any other form approved by the Directors and:—
- (1) in the case of an individual, shall be signed by the appointor or by his attorney;
 - (2) in the case of a corporation, shall be either under its common seal or signed by its attorney or by officer on behalf of the corporation.
74. **OMISSION TO INCLUDE PROXY FORM.** In the event that forms of proxy are sent to Members of the Company together with any notice of meeting, the accidental omission to include the form of proxy to, or the non-receipt of such form of proxy by any person entitled to receive a notice of meeting shall not invalidate any resolution passed or any proceeding at any such meeting.

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75. **CORPORATIONS ACTING BY REPRESENTATIVES AT MEETING.** Any corporation which is a Member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Member of the Company, and such corporation shall for the purposes of these Articles (but subject to the Act) be deemed to be present in person at any such meeting if a person so authorised is present thereat.

DIRECTORS

76. **NUMBER OF AND FIRST DIRECTORS.** All the Directors of the Company shall be natural persons. Until otherwise determined by a general meeting the number of Directors shall be not less than two nor more than fifteen. The first Directors were Mr Teo Chin Kiang Willie and Madam Lim Swee Hoon.
- 76A. **INDEPENDENT DIRECTORS.** The Board of Directors shall have at least two non-executive directors who are independent and free of any material business or financial connection with the Company. Independent directors must comprise at least one-third of the Board of Directors. In the event of any retirement or resignation which renders the Company unable to meet any of the foregoing requirements, the Company shall endeavour to fill the vacancy within two months, but in any case not later than three months.
77. **POWER TO ADD TO DIRECTORS.** The Directors shall have power from time to time and at any time to appoint additional Directors; PROVIDED ALWAYS THAT the total number of Directors shall not exceed the prescribed maximum. A Director so appointed shall retire from office at the close of the next annual general meeting, but shall be eligible for re-election.
78. **DIRECTOR'S QUALIFICATION.** A Director shall not be required to hold any share qualification in the Company.
79. **ALTERNATE DIRECTORS.** Any Director may from time to time and at any time appoint any person (approved by a majority of the other Directors for the time being and who shall not be a person who is already a Director of the Company and who is not already an alternate Director of the Company) to be alternate Director of the Company, and may at any time remove the alternate Director so appointed by him from office. An alternate Director so appointed shall be entitled to receive remuneration from the Company and to receive notices of and attend all meetings of the Directors, and to vote as a Director at any such meeting at which the Director appointing him is not present, and generally in the absence of his appointor to perform all the functions of his appointor as a Director. Any fee paid by the Company to the alternate Director shall be deducted from the remuneration payable to his appointor. All appointments and removals of alternate Directors made by any Director in pursuance of the provisions of this Article shall be in writing under the hand of the Director making the same and left at the Office. The nomination of an alternate Director shall be valid if made by cable or telegram; PROVIDED ALWAYS THAT such nomination shall be confirmed within three months from the date of such cable or telegram by a written nomination complying with the abovementioned requirements, and any act done by the alternate Director nominated in such cable or telegram between the date thereof and the date of the receipt within the prescribed period by the Company of the written nomination shall be as valid and effectual as if such alternate Director had been duly appointed in the first instance, whether such written nomination shall be received by the Company within the prescribed period or not.

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80. **DIRECTORS' REMUNERATION.** Fees payable to the Directors shall from time to time be determined by the Company in general meeting and such fees shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the meeting. Unless otherwise directed by the said ordinary resolution, such fees shall be divided among the Directors in such proportions and manner as they may agree and in default of agreement equally, except that if a Director has held office for part only of the period in respect of which such fees are payable, such a Director shall be entitled only to that proportion of the fees as is related to the period during which he has held office. Fees payable to non-executive directors shall be by a fixed sum and not by way of commission on or percentage of profits or turnover. Salaries payable to executive directors may not include a commission on or percentage of turnover. The Directors shall also be paid such travelling, hotel and other expenses as may reasonably be incurred by them in the execution of their duties including any such expenses incurred in connection with their attendance at meetings of Directors. If by arrangement with the other Directors any Director shall perform or render any special duties or services outside his ordinary duties as a Director, the Directors may pay him special remuneration, in addition to his ordinary remuneration, and such special remuneration may be by way of salary, commission, participation in profits or otherwise, as may be arranged.
81. **DIRECTOR MAY BE INTERESTED IN OTHER COMPANIES.** A Director of the Company may be or become a Director or other officer of, or otherwise be interested in, any company promoted by the Company or in which the Company may be interested as shareholder or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a Director or officer of, or from his interest in, such other company unless the Company otherwise directs.

POWERS AND DUTIES OF DIRECTORS

82. **DIRECTOR TO MANAGE COMPANY'S BUSINESS.** The business of the Company shall be managed by the Directors, who may pay all such expenses of and preliminary and incidental to the promotion, formation, establishment and registration of the Company as they think fit, and may exercise all such powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company, and as are not by the Statutes or by these Articles required to be exercised or done by the Company in general meeting, subject nevertheless to any regulations of these Articles, to the provisions of the Statutes, and to such regulations being not inconsistent with the aforesaid regulations or provisions as may be prescribed by the Company in general meeting, but no regulation made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made; PROVIDED ALWAYS THAT any sale or disposal by the Directors of the Company's main undertaking shall be subject to ratification by shareholders in general meeting.
83. **CHAIRMAN, DEPUTY CHAIRMAN AND VICE-CHAIRMAN.** The Directors may from time to time elect one of their body to be Chairman of the Company, another of their body to be Deputy Chairman of the Company and another of their body to be Vice-Chairman of the Company in each case for a fixed term not exceeding five years or without any limitation as to the period for which any such Director is to hold the office to which he is appointed and on such terms as they think fit. Without prejudice to any claim a Director so appointed to any one of these offices may have for damages for breach of any contract of service between him and the Company, his appointment shall be subject to determination ipso facto if he ceases from any cause to be a Director, or if the Directors resolve that his term of office be

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determined. A Director holding any such office as aforesaid shall receive such remuneration as the Directors may determine but shall not under any circumstances be remunerated by a commission on or percentage of turnover.

84. **MANAGING DIRECTORS.** The Directors may from time to time and at any time appoint one or more of their body to be Managing Director or Managing Directors for a term not exceeding five years upon such terms and at such remuneration (whether by way of salary or commission or participation in profits, or by any or all of these modes or otherwise) as they may think fit, and a Director so appointed shall, while holding that office, be subject to retirement by rotation and he shall be taken into account in determining the rotation of retirement of Directors or the number of Directors to retire, and he shall, subject to the provisions of any contract between him and the Company, be subject to the same provisions as to resignation and removal as the other Directors of the Company, and if he ceases to hold the office of Director he shall ipso facto and immediately cease to be a Managing Director. A Managing Director shall at all times be subject to the control of the Directors.
85. **ATTORNEYS.** The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.
86. **DIRECTORS' BORROWING POWERS.** The Directors may borrow or raise from time to time for the purposes of the Company or secure the payment of such sums as they may think fit, and may secure the repayment or payment of any such sums by mortgage or charge upon all or any of the property or assets of the Company or by the issue of debentures or otherwise as they may think fit.
87. **VACANCIES IN BOARD.** The continuing Directors may act at any time notwithstanding any vacancy in their body; PROVIDED ALWAYS THAT in case the Directors shall at any time be reduced in number to less than the minimum number prescribed by these Articles, it shall be lawful for them to act as Directors for the purpose of filling up vacancies in their body, or of summoning a general meeting of the Company, but not for any other purpose save for an emergency.
88. **DIRECTORS TO COMPLY WITH THE STATUTES.** The Directors shall duly comply with the provisions of the Statutes, and particularly the provisions as to registration and keeping copies of mortgages and charges, keeping of the Register of Members, keeping a Register of Directors and entering all necessary particulars therein, and sending a copy thereof or a notification of any changes therein to the Registrar of Companies, and sending to such Registrar an annual return, together with the Certificates and particulars required by Section 197 of the Act, notices as to increase of capital, returns of allotments and contracts relating thereto, copies of resolutions and agreements and other particulars connected with the above.

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89. **DIRECTORS TO CAUSE MINUTES TO BE MADE.** The Directors shall cause proper minutes to be made of all general meetings of the Company and also of all appointments of officers, and of the proceedings of all meetings of Directors and committees, and of the attendances thereat, and of all business transacted at such meetings; and any such minute of any meeting, if purporting to be signed by the Chairman of such meeting or by the Chairman of the next succeeding meeting shall be conclusive evidence without any further proof of the facts thereon stated.
90. **DIRECTORS MAY CONTRACT WITH COMPANY.** A Director may contract with and be interested in any contract or proposed contract with the Company and shall not be liable to account for any profit made by him by reason of any such contract; PROVIDED ALWAYS THAT the nature of the interest of the Director in any such contract be declared at a meeting of the Directors as required by Section 156 of the Act. No Director shall vote as a Director in respect of any contract or proposed contract or arrangement in which he is directly or indirectly interested, although he shall be counted in the quorum present at the meeting.
91. **DIRECTORS MAY HOLD OTHER OFFICE OF PROFIT.** A Director may hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.
92. **DIRECTORS MAY ACT PROFESSIONALLY.** A Director may act by himself or his firm in any professional capacity for the Company (except as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
93. **OFFICE OF DIRECTOR VACATED IN CERTAIN CASES.** Subject as herein otherwise provided or to the terms of any subsisting agreement, the office of a Director shall be vacated:—
- (1) if a receiving order is made against him or he makes any arrangement or composition with his creditors;
 - (2) if he is prohibited from being a Director by reason of any order made under any provision of the Statutes;
 - (3) if he is found lunatic or becomes of unsound mind;
 - (4) if he resigns his office by notice in writing to the Company;
 - (5) if he becomes bankrupt during his term of office; or
 - (6) if he is disqualified from acting as a director in any jurisdiction for reasons other than on technical grounds.

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APPOINTMENT & REMOVAL OF DIRECTORS

94. **NUMBER OF DIRECTORS MAY BE INCREASED OR REDUCED.** The Company may from time to time in general meeting increase or reduce the number of Directors.
95. **ELECTION OF DIRECTORS.**
- (1) An election of Directors shall take place at every annual general meeting of the Company. All Directors except the Managing Director and any Director appointed to fill a casual vacancy pursuant to Article 96 are subject to retirement by rotation as prescribed in Article 95(2) below.
 - (2) At such annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number rounded to the nearest one-third shall retire from office.
 - (3) A retiring Director shall be eligible for re-election.
 - (4) The Directors to retire in every year shall be those who have been longest in office since the last election, but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree amongst themselves) be determined by lot.
96. **VACANCY TO BE FILLED BY DIRECTORS.** Any vacancy occurring in the Board of Directors may be filled up by the Directors or the Members in the general meeting. A Director so appointed by the Directors shall retire from office at the next following annual general meeting but shall be eligible for re-election.
97. **NOMINATION OF DIRECTORS FOR ELECTION.** A person who is not a retiring Director shall be eligible for election to the office of Director at any general meeting if the Member intending to propose him has, at least eleven clear days before the meeting, left at the Office of the Company a notice in writing duly signed by the nominee, giving his consent to the nomination and signifying his candidature for the office, or the intention of such Member to propose him; PROVIDED ALWAYS THAT in the case of a person recommended by the Directors for election, nine clear days' notice only shall be necessary, and notice of each and every candidature for election to the Board of Directors shall be served on the registered holders of shares at least seven days prior to the meeting at which the election is to take place.
98. **DIRECTOR MAY BE REMOVED BY ORDINARY RESOLUTION.** The Company may by ordinary resolution remove any Director before the expiration of his period of office, and may, if thought fit, by ordinary resolution appoint another Director in his stead.

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PROCEEDINGS OF DIRECTORS

99. **DIRECTOR MAY CALL MEETING OF DIRECTORS.** A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors.
100. **MEETINGS OF DIRECTORS.** The Directors may meet together for the dispatch of business adjourn, and otherwise regulate their meetings, as they think fit. The quorum necessary for the transaction of business may be fixed by the Directors, and unless so fixed shall be two. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairman shall have a second or casting vote except when only two Directors are present and form a quorum or only two are competent to vote on the question at issue.
101. **CHAIRMAN OF THE BOARD.** The meetings of Directors shall be presided over by the Chairman and in his absence by the Deputy Chairman or in the absence of both the chairman and the Deputy Chairman by the Vice-Chairman. If at any meeting the Chairman, the Deputy Chairman and the Vice-Chairman shall not be present within fifteen minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.
102. **DIRECTORS MAY DELEGATE THEIR POWERS.** The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit. Any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
103. **CHAIRMAN OF COMMITTEES.** A committee may elect a Chairman of its meetings. If no such Chairman is elected, or if at any meeting the Chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be Chairman of the meeting.
104. **MEETINGS OF COMMITTEES.** A Committee may meet and adjourn as its members think proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes, the Chairman shall have a second or casting vote except when only two members are present and form a quorum or only two are competent to vote on the question at issue.
105. **ALL ACTS DONE BY DIRECTORS TO BE VALID.** All acts done bona fide by any meeting of Directors, or by a committee of Directors, or by any person acting as a Director, shall, notwithstanding it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.
106. **RESOLUTIONS IN WRITING AND MEETINGS BY CONFERENCE CALLS.**
- (1) A resolution in writing signed or approved by letter, telex or facsimile or by any electronic communication by a majority of the Directors shall be as effective for all purposes as a resolution passed at a meeting of the Directors duly convened, held and constituted. Any such resolution may be contained in a single document or may consist of several documents all in like form.

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- (2) The meetings of Directors may be conducted by means of telephone conference or other methods of simultaneous communication by electronic or telegraphic means and the minutes of such a meeting signed by the Chairman shall be conclusive evidence of any resolution of any meeting conducted in the manner as aforesaid.

SECRETARY

107. **APPOINTMENT OF SECRETARY.** The Secretary shall, and a Deputy or Assistant Secretary may, be appointed by the Directors for such term at such remuneration and upon such conditions as they may think fit; and any Secretary or Deputy or Assistant Secretary so appointed may be removed by them, but without prejudice to any claim he or they may have for damages for any breach of contract of service against the Company.
108. **APPOINTMENT OF SUBSTITUTE.** The Directors may from time to time by resolution appoint a temporary substitute for the Secretary, who shall be deemed to be the Secretary during the term of his appointment.

THE SEAL

109. **SEAL TO BE AFFIXED BY AUTHORITY OF RESOLUTION OF BOARD AND IN THE PRESENCE OF TWO DIRECTORS OR ONE DIRECTOR AND THE SECRETARY.** The Directors shall provide for the safe custody of the Seal which shall not be used without the authority of the Directors or of a committee authorised by the Directors in that behalf. Every instrument to which the Seal shall be affixed shall be signed autographically or by facsimile by one Director and the Secretary or a second Director or some other person appointed by the Directors save that as regards any certificates for shares or debentures or other securities of the Company the Directors may by resolution determine that such signatures shall be dispensed with or affixed by some method of mechanical electronic signature or other method approved by the Directors. The Company may exercise the powers conferred by Section 41 and Section 124 of the Act with regard to having an official seal for use abroad and a duplicate common seal respectively, and such powers shall be exercised by the Directors.

DIVIDENDS AND RESERVE

110. **DISTRIBUTION OF PROFITS.** Subject to any preferential or other special rights for the time being attached to any special class of shares and except as otherwise permitted under the Statutes, the profits of the Company which it shall from time to time determine to distribute by way of dividend shall be applied in payment of dividends upon the shares of the Company in proportion to the number of shares held by a Member but where shares are partly paid, all dividends must be apportioned and paid proportionately to the amounts paid up or credited as paid on the partly paid shares thereon respectively otherwise than in advance of calls PROVIDED THAT where a Member is a Depositor, the Company shall be entitled to pay any dividends payable to such Member to the Depository and, to the extent of the payment made to the Depository, the Company shall be discharged from any and all liability in respect of that payment.
111. **DECLARATION OF DIVIDENDS.** The Directors may, with the sanction of a general meeting, from time to time declare dividends, but no such dividend shall be payable except out of the profits of the Company. The Directors may, if they think fit, from time to time declare and pay to the Members such interim dividends as appear to them to be justified by the position of the Company, and may also from time to time if in their opinion such payment

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is so justified, pay any preferential dividends which by the terms of issue of any shares are made payable on fixed dates. No higher dividend shall be paid than is recommended by the Directors, and the declaration of the Directors as to the amount of the net profits shall be conclusive. No dividends may be paid, unless otherwise provided in the Statutes, to the Company in respect of treasury shares.

112. **DEDUCTION FROM DIVIDEND.** The Directors may deduct from any dividend payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.
- 112A. **EFFECT OF TRANSFER OF SHARES.** A transfer of a share shall not pass the right to any dividend declared in respect thereof before the transfer has been registered.
- 112B. **RETENTION OF DIVIDENDS ON SHARES SUBJECT TO LIEN.** The Directors may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.
113. **PAYMENT OTHERWISE THAN IN CASH.** Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one or more of such ways, and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.
114. **DIRECTORS MAY FORM RESERVED FUND AND INVEST.** The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves, which shall at the discretion of the Directors be applicable for meeting contingencies, or for repairing or maintaining any works connected with the business of the Company, or for equalizing dividends, or for distribution by way of special dividend or bonus, or may be applied for such other purposes for which the profits of the Company may lawfully be applied as the Directors may think expedient in the interests of the Company, and pending such application the Directors may employ the sums from time to time to set apart as aforesaid in the business of the Company or invest the same in such securities, other than the shares of the Company, as they may select. The Directors may also from time to time carry forward such sums as they may deem expedient in the interest of the Company.
115. **DIVIDEND PAID BY CHEQUE.** Any dividend or other moneys payable in cash on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address of the Member or person entitled thereto or, if several persons are registered as joint holders of the share or are entitled thereto in consequence of the death or bankruptcy of the holder, to any one of such persons or to such person and such address as such persons may by writing direct. Provided that where the Member is a Depositor, the payment by the Company to the Depository of any dividend payable to a Depositor shall to the extent of the payment discharge the Company from any further liability in respect of the payment. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or to such person as the holder or joint holders or person or persons entitled to the

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share in consequence of the death or bankruptcy of the holder may direct and payment of the cheque if purporting to be endorsed or the receipt of any such person shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby.

- 115A. **UNCLAIMED DIVIDEND.** The payment by the Directors of any unclaimed dividends or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof. All dividends unclaimed after being declared may be invested or otherwise made use of by the Directors for the benefit of the Company and any dividend unclaimed after a period of six years from the date of declaration of such dividend may be forfeited and if so shall revert to the Company but the Directors may at any time thereafter at their absolute discretion annul any such forfeiture and pay the dividend so forfeited to the person entitled thereto prior to the forfeiture. If the Depository returns any such dividend or moneys to the Company, the relevant Depositor shall not have any right or claim in respect of such dividend or moneys against the Company if a period of six years has elapsed from the date of the declaration of such dividend or the date on which such other moneys are first payable. For the avoidance of doubt no Member shall be entitled to any interest, share of revenue or other benefit arising from any unclaimed dividends, howsoever and whatsoever.

CAPITALISATION OF PROFITS

116. **COMPANY MAY CAPITALISE RESERVES AND UNDIVIDED PROFITS.** The Company in general meeting may at any time and from time to time pass an ordinary resolution (including, without limitation, any ordinary resolution passed pursuant to Article 12(2)) that any sum not required for the payment or provision of any fixed preferential dividend, and (1) for the time being standing to the credit of any reserve of the Company, or (2) being undivided net profits in the hands of the Company, be capitalised, and that such sum be appropriated as capital to and amongst the ordinary shareholders in the proportions in which they would have been entitled thereto if the same had been distributed by way of dividend on the ordinary shares, and in such manner as the resolution may direct, and such resolution shall be effective; and the Directors shall in accordance with such resolution apply such sum in paying up in full any unissued shares or debentures of the Company on behalf of the ordinary shareholders aforesaid, and appropriate such shares or debentures and distribute the same credited as fully paid up to and amongst such shareholders in the proportions aforesaid in satisfaction of the shares and interests of such shareholders in the said capitalised sum or shall apply such sum or any part thereof on behalf of the shareholders aforesaid in paying up the whole or part of any uncalled balance which shall for the time being be unpaid in respect of any issued ordinary shares held by such shareholders or otherwise deal with such sum as directed by such resolution. Where any difficulty arises in respect of any such distribution, the Directors may settle the same as they think expedient, and in particular they may issue fractional certificates, fix the value for distribution of any fully paid-up shares or debentures, make cash payments to any shareholders on the footing of the value so fixed in order to adjust rights, and vest any such shares or debentures in trustees upon such trust for the persons entitled to share in the appropriation and distribution as may seem just and expedient to the Directors. When deemed requisite a proper contract for the allotment and acceptance of any shares to be distributed as aforesaid shall be delivered to the Registrar of Companies for registration in accordance with Section 63 of the Act and the Directors may appoint any person to sign such contract on behalf of the persons entitled to share in the appropriation and distribution and such appointment shall be effective.

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ACCOUNTS

117. **ACCOUNTS AND BOOKS TO BE KEPT.** The Directors shall cause proper accounts to be kept:—

- (1) of the assets and liabilities of the Company;
- (2) of all sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditures take place; and
- (3) of all sales and purchases by the Company.

The books of account shall be kept at the Office, or at such other place as the Directors shall think fit, and shall always be open to the inspection of the Directors.

118. **INSPECTION BY MEMBERS.** The Directors shall from time to time determine whether in any particular case or class of cases, or generally, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them shall be open to the inspection of Member, and no Member (not being a Director) shall have any rights of inspecting any account or book or document of the Company, except as conferred by the Statutes or authorised by the Directors or by a resolution of the Company in general meeting.

119. **ACCOUNTS TO BE LAID BEFORE COMPANY.** Once at least in every year at intervals of not more than fifteen months, but in any event before the expiry of four months from the close of a financial year of the Company the Directors shall lay before the Company at its annual general meeting a profit and loss account and balance sheet for the period following the preceding account or (in the case of the first account) since the incorporation of the Company, made up to a date not more than four months before such meeting. The said account and balance sheet shall be accompanied by such reports and documents and shall contain such particulars as are required by the Act and the listing rules of the Singapore Exchange, and shall be sent to all persons entitled to receive notices of general meetings of the Company not less than fourteen (14) days before the date of the general meeting (or such other period as may be prescribed or approved under applicable laws), provided that:

- (1) these documents may be sent less than fourteen (14) days before the date of the meeting if all persons entitled to receive notices of general meetings from the Company so agree; and
- (2) this Article does not require a copy of these documents to be sent to more than one of any joint holders or to any person of whose address the Company is not aware.

AUDIT

120. **ACCOUNTS TO BE AUDITED.** Where accounts are required to be laid before the Company at its annual general meeting in accordance with Article 119, the accounts of the Company shall be examined, and the correctness of the profit and loss account and balance sheet ascertained by one or more Auditor or Auditors, and the provisions of Section 205, 206, 207, 208 and 209 of the Act and any modification or re-enactment thereof for the time being in force in regard to audit and Auditors shall be observed.

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NOTICES

121. **SERVICE OF NOTICES.** A notice or any other document may be served by the Company upon any Member either personally or by sending it through the post in a prepaid letter addressed to such Member at his registered address as appearing in the Register of Members or, in the case of a Depositor, such address as may be notified by the Depository to the Company for the purpose of the despatch of such notice or document. All notices directed to be given to the Members shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Members, and any notice so given shall be sufficient notice to all the holders of such share.
- 121A. **SERVICE BY ELECTRONIC COMMUNICATION.** Without prejudice to the provisions of Article 121, any notice or document (including, without limitation, any accounts, balance-sheet or report) which is required or permitted to be given, sent or served under the Act or under these Articles by the Company, or by the Directors, to a Member or an officer or auditor of the Company may be given, sent or served using electronic communications to the current address of that person in accordance with the provisions of, or as otherwise provided by, the Statutes and/or any other applicable regulations or procedures. Such notice or document shall be deemed to have been duly given, sent or served upon transmission of the electronic communication to the current address of such person or as otherwise provided under the Statutes and/or any other applicable regulations or procedures.
122. **SERVICE OF NOTICES AND DOCUMENTS OUTSIDE SINGAPORE.** Notwithstanding Article 121, any Member whose registered address is outside Singapore and who has not supplied an address within Singapore for the service of notices and documents shall not be entitled to receive any such notices or documents from the Company.
123. **NOTICES IN CASE OF DEATH OR BANKRUPTCY.** A notice may be given by the Company to the persons entitled to any share in consequence of the death or bankruptcy of a Member by sending it through the post in a prepaid letter addressed to them by name or by the title of representatives or trustees of such deceased or bankrupt Member, at the address (if any) supplied for the purpose by such person as aforesaid, or (until such an address has been supplied) by giving the notice in the manner in which the same would have been given if the death or bankruptcy had not occurred.
124. **WHEN SERVICE DEEMED EFFECTED.** Any notice or other document, if served or sent by post, shall be deemed to have been served or delivered at the time when the letter containing the same is put into the post, and in proving such service or sending it shall be sufficient to prove that the letter containing the notice or document was properly addressed and put into the post office as a prepaid letter.

WINDING UP

125. **DISTRIBUTION IN SPECIE.** If the Company shall be wound up, the liquidators may, with the sanction of a special resolution, divide among the Members in specie any part of the assets of the Company and any such division may be otherwise than in accordance with the existing rights of the Members, but so that if any division is resolved on otherwise than in accordance with such rights the Members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to Section 306 of the Act. A special resolution sanctioning a transfer of sale to another company duly passed pursuant to the said Section may in like manner authorise the

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distribution of any shares or other consideration receivable by the liquidators amongst the Members otherwise than in accordance with their existing rights, and any such determination shall be binding upon all the Members subject to the right of dissent and consequential rights conferred by the said Section.

126. **REMUNERATION OF LIQUIDATOR.** If the Company shall be wound up voluntarily, no commission or fee shall be paid to the liquidator unless it shall have ratified by Members of the Company in a general meeting. The amount of such payment shall be notified to all shareholders at least seven days prior to the meeting at which it is to be considered.

INDEMNITY

127. **DIRECTORS AND OFFICERS ENTITLED TO INDEMNITY.** Subject to Section 172 of the Act, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all expenses, charges, cost, damages, claims, proceedings, losses or liabilities whatsoever which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damage or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto.

PERSONAL DATA

128. **COLLECTION, USE AND DISCLOSURE OF PERSONAL DATA.** A Member who is a natural person is deemed to have consented to the collection, use and disclosure of his personal data (whether such personal data is provided by that Member or is collected through a third party) by the Company (or its agents or service providers) from time to time for any of the following purposes:
- (1) implementation and administration of any corporate action by the Company (or its agents or service providers);
 - (2) internal analysis and/or market research by the Company (or its agents or service providers);
 - (3) investor relations communications by the Company (or its agents or service providers);
 - (4) administration by the Company (or its agents or service providers) of the Member's holding of shares in the Company;
 - (5) implementation and administration of any service provided by the Company (or its agents or service providers) to its Members to receive notices of meetings, annual reports and other shareholders communications and/or for proxy appointment, whether by electronic means or otherwise;
 - (6) processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for any general meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to any general meeting (including any adjournment thereof);

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- (7) implementation and administration of, and compliance with, any provision of these Articles;
 - (8) compliance with any applicable laws, listing rules, take-over rules, regulations and/or guidelines; and
 - (9) purposes which are reasonably related to any of the above purposes.
129. **PERSONAL DATA OF PROXIES AND/OR REPRESENTATIVES.** Any Member who appoints a proxy and/or representative for any general meeting and/or any adjournment thereof is deemed to have warranted that where such Member discloses the personal data of such proxy and/or representative to the Company (or its agents and service providers), that Member has obtained the prior consent of such proxy and/or representative for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy and/or representative for the purposes specified in Article 128, and is deemed to have agreed to indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of such Member's breach of warranty.

ALTERATION OF ARTICLES

130. **ALTERATION OF ARTICLES.** Where these Articles have been approved by any stock exchange upon which the shares in the Company may be listed, no provisions of these Articles shall be deleted, amended or added without the prior written approval of such stocks exchange which had previously approved these Articles.

NOTICE OF EXTRAORDINARY GENERAL MEETING

LERENO BIO-CHEM LTD.

(Registration No. 197401961C)
(Incorporated in the Republic of Singapore)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of **LERENO BIO-CHEM LTD.** (“Company”) will be held at Suntec Convention & Exhibition Center, Level 3, Meeting Room 336, 1 Raffles Boulevard, Singapore 039593 on Friday, 18 January 2019 at 10.00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendment(s), the following resolutions:

Unless otherwise defined or the context otherwise requires, all capitalised terms herein shall bear the same meaning given to them in the circular dated 21 December 2018 issued by the Company (“Circular”).

Important Notice:

Shareholders should note that:

- (a) *Ordinary Resolutions 1, 2, 3, 4, 5, 6, 7 and 8 and Special Resolution 2 (collectively “**Inter-conditional Resolutions**”) are inter-conditional. This means that if any one (1) of these Inter-conditional Resolutions is not approved, the other Inter-conditional Resolutions would not be passed; and*
- (b) *Ordinary Resolutions 9, 10, 11 and 12 and Special Resolutions 1 and 3 are conditional upon the Inter-conditional Resolutions being approved. If any of the Inter-conditional Resolutions is not approved, Ordinary Resolutions 9, 10, 11 and 12 and Special Resolutions 1 and 3 would not be passed.*

AS ORDINARY RESOLUTIONS

Ordinary Resolution 1: Proposed Acquisition

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice:

- (a) approval be and is hereby given to the Company for the acquisition by the Company of Knit Textile and Apparel Pte. Ltd. (“**Proposed Acquisition**”) for a consideration of S\$26.4 million and on the terms and subject to the conditions set out in the conditional put and call option agreement dated 27 September 2017 (as supplemented by the supplemental agreement dated 13 February 2018 and the second supplemental agreement dated 31 August 2018) entered into between the Company and Mr Lim Siau Hing @ Lim Kim Hoe; and
- (b) the directors of the Company (“**Directors**”) and each of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Ordinary Resolution 1.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Ordinary Resolution 2: Proposed Allotment and Issue of the Consideration Shares

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice and pursuant to Article 12(2) of the Existing Constitution (as amended pursuant to Special Resolution 3 in this Notice) and Rule 806 of the Catalyst Rules:

- (a) the Directors be and are hereby authorised to allot and issue, after the passing and completion of Ordinary Resolution 6 in relation to the Proposed Share Consolidation, an aggregate of 132,000,000 new Consolidated Shares in the share capital of the Company at the issue price of S\$0.20 each in satisfaction of the Consideration for the Proposed Acquisition; and
- (b) the Directors or any of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Ordinary Resolution 2.

Ordinary Resolution 3: Proposed Whitewash Resolution

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice and pursuant to the letter dated 19 December 2018 from the SIC, the Independent Shareholders hereby resolve unconditionally and irrevocably to waive their rights under Rule 14 of the Singapore Code on Take-overs and Mergers to receive a mandatory general offer from the Vendor and the Family Trust Company for all the shares in the capital of the Company in issue not already owned, controlled or agreed to be acquired by the Vendor, the Family Trust Company and their concert parties as a result of the allotment and issue of the Vendor Consideration Shares and the Transaction Costs Shares.

Ordinary Resolution 4: Proposed Allotment and Issue of the Transaction Costs Shares

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice:

- (a) the Directors be and are hereby authorised to allot and issue, after the passing and completion of Ordinary Resolution 6 in relation to the Proposed Share Consolidation, an aggregate of 10,000,000 new Consolidated Shares in the share capital of the Company at an issue price of S\$0.20 each to the Vendor in satisfaction of the Transaction Costs for the Proposed Acquisition; and
- (b) the Directors or any of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Ordinary Resolution 4.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Ordinary Resolution 5: Proposed Allotment and Issue of the Settlement Shares

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice:

- (a) the Directors be and are hereby authorised to allot and issue, after the passing and completion of Ordinary Resolution 6 in relation to the Proposed Share Consolidation, an aggregate of 24,000,000 new Consolidated Shares in the share capital of the Company at an issue price of S\$0.20 each to the Bin Tai Holdings Private Limited; and
- (b) the Directors or any of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Ordinary Resolution 5.

Ordinary Resolution 6: Proposed Share Consolidation

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice:

- (a) approval be and is hereby given for the consolidation of every twenty (20) issued ordinary shares in the capital of the Company into one (1) Consolidated Share; and
- (b) following the consolidation as described in paragraph (a) above, the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or expedient in connection with the share consolidation, including but not limited to disregarding fractional entitlements, issuing new share certificates in respect of the Consolidated Shares in issue and making arrangements for the settlement and disposal of fractional entitlements, if any, arising from or in connection therewith and in particular (but without prejudice to the generality of the foregoing), by aggregating any fractional entitlements arising as a result thereof and selling the same for the benefit of the Company in such manner and on such terms as the Directors may think fit and/or purchasing any fractional entitlements in such manner and on such terms as the Directors may think fit for the benefit of the Company.

Ordinary Resolution 7: Proposed Appointment of Mr Lim Siau Hing @ Lim Kim Hoe as Director

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice, Mr Lim Siau Hing @ Lim Kim Hoe be and is hereby appointed as director of the Company with effect from completion of the Proposed Acquisition.

Ordinary Resolution 8: Proposed Appointment of Mr Lim Vhe Kai as Director

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice, Mr Lim Vhe Kai be and is hereby appointed as director of the Company with effect from completion of the Proposed Acquisition.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Ordinary Resolution 9: Proposed Appointment of Mr Koh Boon Huat as Director

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice, Mr Koh Boon Huat be and is hereby appointed as director of the Company with effect from completion of the Proposed Acquisition.

Ordinary Resolution 10: Proposed Re-Election of Mr Goh Yeow Tin as Director

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice, Mr Goh Yeow Tin be and is hereby re-elected as director of the Company with effect from completion of the Proposed Acquisition.

Ordinary Resolution 11: Proposed Re-Election of Mr Yap Boh Pin as Director

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice, Mr Yap Boh Pin be and is hereby re-elected as director of the Company with effect from completion of the Proposed Acquisition.

Ordinary Resolution 12: Proposed General Share Issue Mandate

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice:

- (a) approval be and is hereby given, pursuant to Article 12(2) of the Articles of Association (as amended pursuant to Special Resolution 3) and Rule 806 of the Catalist Rules, to the Directors to:
 - (i) (A) allot and issue shares in the capital of the Company (whether by way of rights, bonus or otherwise); and/or
 - (B) make or grant offers, agreements or options (collectively, “**Instruments**”) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other Instruments convertible into shares,

at any time and upon such terms and conditions, and for such purposes and to such persons as the Directors shall in their absolute discretion deem fit; and

- (ii) (notwithstanding that the authority conferred by this Ordinary Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Ordinary Resolution was in force,

provided that:

- (A) the aggregate number of new shares to be issued pursuant to such authority (including shares to be issued in pursuance of Instruments made or granted pursuant to such authority and any adjustments effected under any relevant Instrument) shall not exceed 100.0% of the then-existing total number of issued shares of the Company, and that the aggregate number of shares to be issued other than on a pro-rata basis to the then existing Shareholders shall not exceed 50.0% of the then-existing total number of issued shares of the Company; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (B) unless revoked or varied by the Shareholders in general meeting, such authority shall continue in full force until the conclusion of the next annual general meeting or the date by which the next annual general meeting is required by law to be held, or the expiration of such other period as may be prescribed by the Companies Act and the Catalyst Rules, whichever is earlier.

For the purposes of this resolution, the “then-existing total number of issued shares” shall mean the total number of issued shares (excluding treasury shares and subsidiary holdings) after the Proposed Share Consolidation, the allotment and issue of the Consideration Shares, Transaction Costs Shares and Settlement Shares and the Proposed Capital Reduction; and

- (b) the Directors or any of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Ordinary Resolution 12.

AS SPECIAL RESOLUTIONS

Special Resolution 1: Proposed Capital Reduction

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice and pursuant to section 78A read with section 78C of the Companies Act, the Proposed Capital Reduction be and is hereby approved and that approval be and is hereby given to the Directors to complete and do all such acts and things, including, without limitation, executing all such documents and approving any amendments, alterations or modifications to any documents as they may consider necessary, desirable or expedient to give effect to this Special Resolution 1.

Special Resolution 2: Proposed Change of Name

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions in this Notice and with effect from a date on or after completion of the Proposed Acquisition as the Directors may determine:

- (a) the name of the Company be changed to “KTMG Limited” and that the name “KTMG Limited” shall be substituted for “Lereno Bio-Chem Ltd.”, wherever the latter name appears in the Company’s Constitution; and
- (b) the Directors or any of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Special Resolution 2.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Special Resolution 3: Proposed Amendments to the Existing Constitution of the Company

THAT subject to and contingent upon the passing of the Inter-conditional Resolutions:

- (a) the Articles of Association of the Company be and are hereby amended in the manner described in Appendix L entitled “Proposed Amendments to the Existing Constitution” of the Circular; and
- (b) the Directors or any of them be and are hereby authorised and empowered to complete and do all such acts and things (including without limitation, to execute all such documents as may be required, to approve any amendments, alterations or modifications to any documents, and to sign, file and/or submit any notices, forms and documents with or to the relevant authorities) as they may consider necessary, desirable or expedient to give effect to the matters contemplated by this Special Resolution 3.

By Order of the Board
Ong Puay Koon
Managing Director and Chief Executive Officer
21 December 2018

Explanatory Notes:

A member entitled to attend and vote at the extraordinary general meeting of the Company (“**Meeting**”) and who holds two (2) or more Shares is entitled to appoint not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company. Such member should complete, sign and return the Shareholder Proxy Form in accordance with the instructions printed therein as soon as possible and, in any event, so as to arrive at the office of the Company’s Singapore share transfer agent Tricor Barbinder Share Registration Services at 80 Robinson Road #11-02 Singapore 068898, not later than 48 hours before the time fixed for the Meeting. The appointment of a proxy by a member does not preclude him from attending and voting in person at the Meeting if he so wishes in place of the proxy.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively “**Purposes**”), (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.

*This notice has been prepared by the Company and its contents have been reviewed by the Company’s Sponsor, SAC Capital Private Limited (the “**Sponsor**”), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the “**Exchange**”). The Company’s Sponsor has not independently verified the contents of this notice.*

This notice has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this notice, including the correctness of any of the statements or opinions made or reports contained in this notice.

The contact person for the Sponsor is Mr. Bernard Lim, Director, at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542, telephone (65)6232 3200.

PROXY FORM

PROXY FORM

LERENO BIO-CHEM LTD.

(Incorporated in the Republic of Singapore)

(Registration No. 197401961C)

I/We, _____ (Name), NRIC/Passport No. _____ of _____ (Address) being a member/members of LERENO BIO-CHEM LTD. ("Company"), hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings to be represented by proxy (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings to be represented by proxy (%)

or failing him/her/them, the Chairman of the Extraordinary General Meeting of the Company ("EGM") as my proxy/our proxies, to vote for me/us on my/our behalf and, if necessary, to demand a poll at the EGM to be held at Suntec Convention & Exhibition Center, Level 3, Meeting Room 336, 1 Raffles Boulevard, Singapore 039593 on Friday, 18 January 2019 at 10:00 a.m. and at any adjournment thereof.

I/We direct my proxy/our proxies to vote for or against the Ordinary Resolutions and Special Resolutions to be proposed at the EGM as indicated with an "X" at the spaces provided hereunder. If no specified directions as to voting are given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the EGM. If no person is named in the above boxes, the Chairman of the EGM shall be my proxy/our proxies to vote for or against the Ordinary Resolutions and Special Resolutions to be passed at the EGM as indicated below for me/us and on my/our behalf at the EGM and at any adjournment thereof.

No.	Ordinary Resolutions	For	Against
1.	To approve the Proposed Acquisition		
2.	To approve the Proposed Allotment and Issue of the Consideration Shares		
3.	To approve the Proposal Whitewash Resolution		
4.	To approve the Proposed Allotment and Issue of the Transaction Costs Shares		
5.	To approve the Proposed Allotment and Issue of the Settlement Shares		
6.	To approve the Proposed Share Consolidation		
7.	To approve the Proposed Appointment of Mr Lim Siau Hing @ Lim Kim Hoe as Director		
8.	To approve the Proposed Appointment of Mr Lim Vhe Kai as Director		
9.	To approve the Proposed Appointment of Mr Koh Boon Huat as Director		
10.	To approve the Proposed Appointment of Mr Goh Yeow Tin as Director		
11.	To approve the Proposed Appointment of Mr Yap Boh Pin as Director		
12.	To approve the Proposed General Share Issue Mandate		
	Special Resolutions		
1.	To approve the Proposed Capital Reduction		
2.	To approve the Proposed Change of Name		
3.	To approve the Proposed Amendment to the Existing Constitution of the Company		

Dated this _____ day of _____ 2019

Total number of Shares in	Number of Shares
(a) CDP Register	
(b) Register of Members	

Signature of Shareholder(s) or Common Seal

IMPORTANT: PLEASE READ NOTES OVERLEAF BEFORE COMPLETING THIS PROXY FORM.

PROXY FORM

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Cap 289) of Singapore), you should insert that number. If you have shares registered in your name in the Register of Members of the Company, you should insert that number. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2.
 - (a) A member of the Company who is entitled to attend and vote at the Extraordinary General Meeting and who is not a relevant intermediary is entitled to appoint not more than two (2) proxies to attend and vote on his behalf. Where such member appoints more than one (1) proxy, he/she shall specify the proportion of his/her shareholding to be represented by each proxy. A proxy need not be a member of the Company. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
 - (b) A member of the Company who is entitled to attend and vote at the Extraordinary General Meeting and who is a relevant intermediary is entitled to appoint more than two (2) proxies to attend and vote in his stead. Where such member appoints more than one (1) proxy, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

“Relevant intermediary” has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50.
3. The instrument appointing a proxy or proxies must be deposited at the office of the Company’s Share Registrar, Tricor Barbinder Share Registration Services at 80 Robinson Road #11-02, Singapore 068898 not less than forty-eight (48) hours before the time appointed for the meeting.
4. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its attorney or a duly authorised officer.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation that is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the meeting, in accordance with Section 179 of the Companies Act (Chapter 50) of Singapore.
8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.

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